REPORT

OF

THE COMMITTEE OF ENQUIRY INTO THE EXPENSES

OF

THE LIFE INSURANCE CORPORATION OF INDIA

PART I

APRIL 1969

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सत्यमेव जयते

R. R. Morarka,
Chairman,
The Committee of enquiry into the
expenses of the L.I.C.

28, Akbar Road,
NEW DELHI
30th April, 1969.

My dear Deputy Prime Minister,

I have the honour to submit herewith the Report of the Committee of Enquiry into the expenses of the L.I.C. This Committee was set up to enquire into the high level of expenses of the L.I.C. and to suggest administrative and other measures that can be taken to control the level of expenses, and to ensure economy and efficiency of management in the Corporation.

When the Life Insurance Corporation was set up it was hoped that the objectives of nationalisation would be realised by making the protection of insurance available to the maximum number of people in urban and rural areas, by eliminating the risks and evil practices that had resulted from unhealthy competition, by reducing the expenses of management, by improving services to policyholders, and by increasing the return of investments consistent with safety and security. It was also intended that the savings of the community thus mobilised should be utilised for our development Plans in the interests of our society as a whole. It is admitted that the Corporation has achieved varying degrees of success in these various objectives that were set before it at the time of nationalization. However, contrary to the expectations the Corporation has not succeeded in reducing the expenses of administration or reducing the ratio between expenses and premium income.

Our Committee was required to identify the causes of the high level of expenses and to recommend remedial measures that the Corporation and the Government can take. We have addressed ourselves to this task with a full awareness of the deep concern that the Government, the Management of the Corporation, the policyholders and the community have in the economic and administrative efficiency of the Corporation. The monopoly that the Corporation enjoys in this crucial field that is vital to the economic life of the community and the economic security of the individual and his family, places a special responsibility on the Corporation and the Government to maximize the economic and administrative efficiency of the Corporation. We have, therefore, attempted to examine every aspect of the working and structure of the Corporation that has a bearing on the level of expenses and efficiency of the Corporation (with the exception of Investments that was excluded from our field of enquiry) and we hope that our efforts have succeeded in identifying the vulnerable areas that need constant vigilance and effective control. We will feel that our efforts have been amply rewarded if the analysis and the recommendations that we have made contribute to a clearer understanding of the areas in which economy can be effected and help in adopting measures that will reduce the level of expenses and improved the efficiency of the Corporation.

In conclusion, I must record my personal appreciation of the invaluable contribution that every member of the Committee has made to the success of our efforts. Prof. Diwan was initially hesitant to join our Committee because of his interest in a legal suit that he had filed against the Corporation. But it was our good fortune that he agreed to join the Committee. Our Committee has benefited from Prof. Diwan's erudition and intimate knowledge of actuarial practice, from the characteristic clarity and incisiveness which Mr. Varma has brought to our studies and from the vast practical experience that Mr. Rao has of the administration and problems of insurance. I am deeply grateful to all of them for the unstrinted co-operation that I have received from them.

Our Committee is also grateful to Mr. S. Subramanian, an Assistant Controller of Insurance, deputed from the Office of the Controller of Insurance, Simla to assist the Committee and Mr. H. S. Mehta, Mr. T. N. Moorthy, Dr. A. C. Nag and Mr. A. R. Ratnam, Officers of the Corporation whose services were lent to the Committee, who helped the Committee to collect and analyse the data and to deal with the enormous work that goes into a study of the kind that we undertook. All of them worked cheerfully for long hours and helped the Committee to do its best. We are grateful to all of them, particularly to Mr. S. Subramanian whose knowledge, earnestness and application were of great help in organizing the Secretariat of our Committee.

We are also very thankful to the team of Stenographers and Typists but for whose industry and hard work we would not have been able to complete our work in time.

With kindest regards,

Yours sincerely,
R. R. MORARKA.

Shri Morarji R. Desai,
Deputy Prime Minister and Finance
Minister of India,

Ministry of Finance,
Government of India,
NEW DELHI.

THE COMMITTEE OF ENQUIRY INTO THE EXPENSES OF THE L.I.C.

CHAIRMAN :

SHRI R. R. MORARKA

MEMBERS :

SHRI RAVINDRA VARMA

PROF. G. S. DIWAN

MEMBER SECRETARY :

SHRI M. J. RAO

सत्यमेव जयते

INTRODUCTION

1. The Government of India appointed our Committee to enquire into the causes of the high level of expenses of the Life Insurance Corporation of India, and to recommend measures that the Corporation could take to control and bring down the expenses to level that would be consistent with the canons of sound economic management and the "maximum interests of the policyholders."*

2. (a) No Undertaking that transacts any form of commerical, industrial or financial business, can afford to relax its vigil on the expenditure that it incurs on its administration or business operations. The economic efficiency of the Undertaking, and the profit or success that it achieves will depend on the efficiency of its control on expenses and the relation that expenses bear to the volume and the value of its output in services or commodities.

(b) The nature of the business that the Life Insurance Corporation transacts is indeed unique. It offers cover or protection against the risk of death. It attracts the savings of the community and enables individuals or groups to purchase protection against risks. It holds and invests the funds that premia make available to it. It invests the large funds that accrue to it from the premia that lakhs of policyholders pay. It has to invest these funds in ventures that are secure and at the same time capable of yielding maximum returns and promoting the economic interests of the community as a whole. It has to ensure a constant flow of new business, both to attract the savings of the community and to fulfil the objective of making insurance available to all sections of the community. It has to ensure that the business, that it procures, endures, that policies do not lapse and premia are paid regularly, and at the appointed intervals. All these form part of the wide canvas of responsibility that an Insurer carries, and contribute to the unique nature of life insurance business. It might very well be said that there are very few areas of business which are so crucial to the life and economic security of the citizen as life insurance business.

3. These might have been some of the considerations that prompted the Government of India to nationalise life insurance and set up the Life Insurance Corporation of India. When Parliament enacted legislation to set up the Life Insurance Corporation as a monopolistic Public Undertaking, it was widely believed that the elimination of competition and the mal-practices that competition had given rise to would lead to better and more economic management of the business of life insurance, reduction in administrative expenses, increase in the volume of business, improvement in the quality of service, and maximisation of the social advantages that insurance business can provide. There can be no doubt at all that in the 12 years that have elapsed after nationalisation enormous increases have been registered in new business in terms of sums assured and policies issued, the business in force, in the size of the life insurance funds, the total size of the Corporation and in the number of

*The text of the Government Resolution appointing the Committee has been given in Appendix I of this Report.

centers from which the Corporation is transacting business. Difficult and delicate problems arising from the integration of the offices and business activities of scores of private Insurers who functioned in pre-notionalisation days, have been handled with considerable success. It can, therefore, be claimed that in many fields the Corporation has made significant progress along lines that were visualised at the time of nationalisation. However, it must be admitted that the expense experience of the Corporation has not fulfilled the hopes that were entertained at the time of nationalisation. It had been hoped that the elimination of competition and the mal-practices that competition had given rise to would lead to a substantial reduction in the level or expenses. In fact the hope was expressed that the level of expenses of the Corporation would be far below the level of expenses of the private Insurers who were functioning before nationalisation. The record of the Corporation during the last 12 years has, it must be regretfully admitted, belied this hope. The renewal expense ratio, which has been used as an index of the level of expenses, has reflected a rising level of expenses in the Corporation. The renewal expense ratio of the Corporation was 15.89% between 1.9.1956 and 13.12.1957 and went down to 12.42 per cent in 1961. Ever since 1963 it has been reflecting a steady upward trend, the renewal expense ratio itself rising from 12.46 per cent in 1963-64 to 15.90 per cent in 1967-68. Towards the latter half of 1967, it became apparent that the renewal expense ratio of the Life Insurance Corporation of India as budgeted for the year 1967-68, would cross 18 per cent, and the revised budget estimate for 1966-67 itself would go up to 16.94 per cent. It was clear that this would take the renewal expense ratio to a level that was considerably higher than the permissible statutory limit, and far above the level at which leading Insurers like the Oriental and New India worked before nationalisation. We believe that it is this concern with the high and rising level of expenses reflected by the steadily rising figures of the renewal expense ratio that led the Government to appoint our Committee.

4. The Government Resolution appointing our Committee refers to the renewal expense ratio and the high level of expenses that the renewal expense ratio reflects. Though the term "Renewal Expense Ratio" has not been defined either in the Insurance Act of 1938 and the Insurance Rules of 1939, or in the Life Insurance Corporation Act of 1956, for many years now in India the renewal expense ratio has been looked upon as an index of the efficiency of management and the level of expenses of Life Insurance Undertaking. Before nationalisation, it was customary to make use of the renewal expense ratio to compare the efficiency and economy of the various Life Insurance Companies that were functioning in the Country. The Government, Actuaries, experts in the field of insurance and common men looked upon this ratio as the index of the efficiency of an Undertaking. The term renewal expense ratio seems to have gained significance as the ratio calculated in terms of Rule 25(b) of the Insurance Rules of 1939. Our Committee, therefore, commenced its studies on the assumption that the renewal expense ratio could be regarded as a reliable index of the level of expenses and economic efficiency of the Life Insurance Corporation. However, we soon saw that many of the learned witnesses who appeared before our Committee took the view that the renewal expense ratio was a defective index for measuring the economic efficiency of any Life Insurance Institution and that the rising trend in the renewal expense ratio need not, therefore, be regarded as indicative of a high or uneconomic level of expenses.

Some others took the view that the renewal expense ratio was as good an index as any that could be visualised, and that it did reflect the expense experience of an Insurer. Some of them, therefore, argued that what had to be done was not to examine whether the renewal expense ratio was a real index and whether it really reflected a high level of expenses but whether the statutory limit that had been fixed on the ratio was reasonable or should be revised in the context of the general increase in the prices of goods and services and the effects of inflation. When we found that there were two opinions on the very basic notion of the renewal expense ratio and its ability to reflect the real level of expenses, it became necessary for our Committee to examine the nature, value and utility of the renewal expense ratio and the other indices that are commonly used to evaluate the functioning of life insurance companies, and to examine whether other indices that might be adopted would confirm the high level of expenses reflected by the renewal expense ratio. We have, therefore, examined and discussed the relative merits of the different indices of expenses, the trend and level of expenses of L.I.C. reflected in these different indices of expenses and the improved indices that can be used to evaluate as well as limit the expenses of the L.I.C. in the future. The first four chapters of our Report, therefore, contain the observations and recommendation that we have to make about the indices of expenses and their role in facilitating the control of expenses.

5. It is clear that any business organisation that wants to ensure economy in expenses and to relate the volume of expenses to the volume and value of its business and services, has to make full use of planning concurrent control that a proper system of budgeting can provide. There is no doubt that in a big organisation or undertaking that has to function at many levels and incur expenditure at many levels and in many fields, cost-consciousness or economy-consciousness must make itself felt at every level. The processes and procedures that are used to formulate the budget and exercise concurrent control over expenditure are therefore crucial in an organisation of the magnitude of the Life Insurance Corporation of India. We have, therefore, devoted Chapter V of our Report to an examination of the present system of budgeting and budgetary control in the Corporation.

6. The Budget of an Undertaking like the Life Insurance Corporation can be prepared only on the basis of a realistic estimate of the income that might be expected from new business as well as renewal premium. The new business that the Corporation can plan to procure depends on the potential, the relevance of the policies that the Corporation offers, the competence of personnel, the efficiency of deployment and other factors. We have, therefore, devoted Chapter VI to a discussion of the effect of the development of new business on the income and expenditure of the Corporation.

7. The expenses of management of the Corporation amounted to about Rs. 59 crores in the year 1967-68. Of these expenses, nearly 34 per cent were incurred on the salaries and allowances payable to the different categories of employees, including the Development Officers. The expenses under the head of Salaries to Personnel have consistently been above 50 per cent of the total expenses of the Corporation during all these years. It is, therefore, obvious that the expenditure on personnel is the single largest item of expenditure for the Corporation. We have,

therefore, devoted Chapter VII of our Report to a detailed examination of the problems of emoluments including dearness allowance and other allowances, incentives, prescription of work norms, productivity, over-staffing etc., and their effect on the level of expenses of the Corporation.

8. The Development Officers of the Corporation occupy a position somewhat similar to that of the Special Agents of the erstwhile Insurers. The total cost incurred on these Officers of the Corporation, and the relation between the amount of business and premium income brought in and conserved by the efforts of Development Officers and the amount of expenditure on them, have therefore a crucial effect on the expense ratio and the economy of management in the Corporation. We have, therefore, devoted Chapter VIII of our Report to a consideration of the work done by the Development Officers, the terms and conditions of their appointment, the methods in which they are remunerated, the criteria adopted for appraising their work etc.

9. The Corporation today has an agency force of nearly 1,65,000. The commission that is paid to these Agents accounts for nearly 30 per cent to 35 per cent of the total expenses of the Corporation. The expenses on Agents, therefore, is the second highest item of expenditure, next only to the item of Salaries to Personnel. The effciency of the working of the agent, the quantity and quality of the business that he procures, the duration for which he functions as an agent, the services that he renders to clients, the ability with which he minimises the losses that result from lapses, the number of policies that he procures and the quantum and manner of remuneration to the agents are all matters that affect the efficiency of the agency force, the level of expenses and the economy of the management. We have, therefore, devoted Chapter IX of our Report to the consideration of this question.

10. Chapter X of our Report deals with the problem of lapses, the impact that lapses have on the level of expenses, and our suggestions for controlling and reducing lapses.

11. As we have already pointed out in the earlier paragraphs, nearly 85 per cent of the Corporation's expenses are accounted for by the Salaries of Personnel and the remuneration to Agents. The other expenses of the Corporation like Travelling Expenses, Medical Fees, Printing and Stationery, Rents, Tabulating Machines, Postage and Telegrams, Publicity, Telephones, etc., account only for the remaining 15 per cent of the expenses. Many of these heads of Account involve comparatively small sums. We did not think that it would be very useful for us to study each of these minor items especially since the scope of economy in many of these minor items was not very large. We have, therefore, concentrated our attention on items of expenditure of the order of rupees one crore or more. We have dealt with these items in two chapters. Chapter XI deals with two major heads of expenses, namely, Travelling Expenses and Medical Fees; and Chapter XII which deals with what we have termed minor heads of expenses, consisting of Printing and Stationery, Postage, Telegrams etc.; Rents; Tabulating Machines; Electronic Data Processing System; Publicity expenses; Telephones; and Staff Medical Recreation and other Expenses.

12. Chapter XIII deals with the expenditure that the Corporation incurs on reinsurance. We have examined the need for reinsurance and the

effect that the present system of reinsurance is having on the level of expenses. Chapter XIV of our Report deals with the system of accounting that the Corporation is following today. Chapter XV deals with the role and functions of Internal Audit and the improvements that are necessary in the working of the Internal Audit, Inspection and Organisation and Methods Department to ensure concurrent control and effective vigilence over expenditure and provide the management tools that Internal Audit and Organisation and Methods Departments can provide.

13. The premium rates of a Life Insurance Undertaking are of considerable importance to the Undertaking as well as to the Policyholders. It is in the premium rates that the Insurer has to provide for current and anticipated expenses, variations in mortality and fluctuations in the rate of interest. The premium rates of a Life Insurance Undertaking, therefore, are of vital importance to the planning and controlling of expenditure and income. We have, therefore, dealt with this question in Chapter XVI of our Report.

14. The Life Insurance Corporation Act that set up the Corporation, conferred autonomy on the Corporation since it was universally accepted that the kind of business that the Corporation was expected to carry on could not be efficiently carried on by a departmental undertaking that lacked autonomy. In Chapter XVII of our Report, we have examined the degree of autonomy that the Corporation has enjoyed in the last 12 years and pointed out to certain areas in which improvements are necessary.

15. The organisational set-up of an Undertaking has considerable effect on the efficiency of the Undertaking as well as the level of expenses. We have, therefore, devoted Chapter XVIII to a discussion of the present organisational set-up of the Corporation and the effect that it has on the expense level of the Corporation. We have also examined the suggestion that change in the unitary set-up of the Corporation might result in a better control of the level of expenses.

16. The Life Insurance Corporation is not only transacting Life Insurance business but also General Insurance business. The income of the Corporation accrues from life insurance business as well as general insurance business, and the Corporation incurs expenditure in both these fields. We have, therefore, concluded our Report with an examination and the effect of general insurance business of the Corporation on the level of expenses and the economy of management.

17. Soon after the Committee was constituted in July, 1967, we commenced our work. The first meeting of our Committee was held at Bombay on the 29th July, 1967. We decided that, in view of the wide interests that policyholders, agents, officers of the Corporation and the general public have in the efficient management and working of the Life Insurance Corporation, we should have the benefit of the views of all those who wanted to help our Committee in its work. We, therefore, invited, through a Press Statement, all individuals and associations who wanted to present their views and suggestions to our Committee to do so through memoranda or oral evidence. In response to this request of ours we received many memoranda from individuals and associations. We also had the benefit of the oral evidence that some of these individuals and associations gave at our meetings.

18. It was clear to us from the very beginning that much of the success of our Committee would depend on the cooperation that we receive from the Life Insurance Corporation, in obtaining the information that we needed on the various points of enquiry. We are glad to be able to say that we received the fullest cooperation from the Corporation. The Corporation collected and supplied to us detailed information that we sought on all matters relating to the expenses of the Corporation and its various Units—Central Office, Zonal Offices, Divisional Offices and Branch and Sub-Offices.

19. The headquarters of our Committee was located at Bombay. In the course of our work, we visited Calcutta, Kanpur, Delhi, Madras and Bangalore. We had meetings with the Zonal Managers at the headquarters of every Zone. We also had opportunities to meet the Divisional Managers and to review the working of their Divisions with them. The discussions that we had with the Chairman, the Managing Directors and other senior officers at the Central Office of the Coroporation and the oral evidence that we received from them were of invaluable help in our examination of the problems that we were asked to study. The Committee had in all thirty-five meetings for examining the witnesses and discussing the matters among themselves.

20. The Committee is deeply grateful to the Corporation for all the help and assistance that it has received from the Corporation and from the Research Officers of the Corporation who helped us to collect, sift, analyse and interpret the voluminous evidence and information that we collected with the help of the Corporation.

CHAPTER I

INDICES OF EXPENSES

1.1 The Government Resolution appointing our Committee has asked us to enquire into "the present high level of expenses in the Corporation as indicated by its Renewal Expense Ratio". When we commence our work, we therefore started with the notion that

(1) the level of expenses in the Corporation was high;

(2) that the Renewal Expense Ratio (RER) reflected this high or increasing level; and

(3) that the RER was a sound index of the expense level of the Corporation.

But we found that many of the witnesses who appeared before us to give evidence questioned some of these basic notions. Some of them held the view that the RER was a highly defective index that distorted the real state of affairs, and that no tenable conclusion about the level of expenses could therefore be drawn from the RER. Some others held the view that the RER itself was a sound index, or at least, as good an index as any other that could be conceived of, and that the difficulty had arisen because the statutory ceiling for the RER had not been revised to allow for inflation, rise in prices etc. over which the Corporation itself had no control. These conflicting views made it necessary for us to examine whether the RER could be regarded as a sound index of the expense level, whether what looked like a high level of expenses was only an optical illusion created by the distorting medium of the RER and whether other indices that could be used also revealed a high level of expenses. But for this, it would not have been necessary for us to discuss in this report questions like what are the indices of expenses that a Life Insurer can use, how did they come to be used, what are their merits and demerits, and which of the indices are the most suitable ones that the L.I.C. can adopt under the present circumstances. Since the propriety of the index which formed the very basis of our terms of reference was being questioned, we thought we could not ignore these questions. We have therefore attempted to deal with these questions and clear the decks before proceeding to the reasons for the high level of expenses and the measures that can be taken to control expenses.

Criterion for an index of Expenses:

1.2.1 One of the basic factors that determine the economic viability and profitability of any commercial or industrial undertaking is its level of expenses and the relation that its level of expenses bears to its level of income. It is, therefore, essential for the management of any undertaking to equip itself with scientific and effective instruments that enable it to measure and control the level of expenses in the undertaking. The

standards of measurement should provide the management with the means and the opportunity to watch and control the progression of expenditure and identify and correct unhealthy or uneconomic trends as they are revealed in the course of a constant review of expenditure and achievement. The standards that the management adopts have therefore to be scientific, and not arbitrary. They have to be such as enable them, and others similarly placed in other undertakings, to understand the soundness or profitability of a concern in comparison with the achievement of similar undertakings at least in the same sector of industry. We have no doubt that the need for intelligible standards of measurement to evaluate the performance of managements and undertakings is all the greater in an undertaking or industry in the Public Sector which has the sole right to do a particular type of business, since the monopolistic nature of the undertaking shelters it from competition and takes away the opportunity to evaluate by comparisons and also because the public at large have the right, and their representatives have the right and the duty to exercise the vigilance that shareholders are expected to exercise in the case of a private undertaking.

1.2.2 The Life Insurance Corporation of India came into being after Life Insurance Business was nationalised in 1956. Since then the Corporation has been the only concern transacting Life Insurance Business in the country. When the Corporation was established in 1956, it inherited business of about Rs. 1220 crores from the private Companies that were operating before nationalisation. To-day the total business in force that the Corporation handles is of the order of about Rs. 5240 crores. There can be no doubt that a financial institution in the Public Sector that manages business of this magnitude will have to formulate intelligible and effective standards for measuring and controlling its level of expenditure.

Uses of an Index :

1.3.1. Life Insurance Business differs from other businesses in one fundamental respect. While in other businesses the profit or loss of an undertaking can be determined at the end of a year, on the basis of the Trading Account and the Profit & Loss Account, in the case of Life Insurance, the profit or loss can be ascertained only by an actuarial valuation of the future liabilities. This actuarial valuation requires certain assumption to be made for, among other things, future expenses for the business on its books. These assumptions are ordinarily made on the basis of the past expenses. It is therefore absolutely essential for a life insurer to have as accurate an index as possible of the expenses incurred in the past.

1.3.2. There are also other uses for an index of expenses in life insurance. The index should enable one to know whether the expenses of the undertaking are reasonable in terms of its income and the services it renders; to compare the trend of expenses from year to year; to compare the performance of the undertaking with the performance of similar undertakings in the country or elsewhere and to enable the determination of, or examining the adequacy of, the provision for expenses in premium rates.

A Special Feature :

1.4 There is yet another special feature of the expenses of a Life Insurance concern that any effective standard of measurement will have to take into account. Ordinarily the expenses that a Life Insurance concerns

has to incur on a new policy are higher in its first year, and less in its subsequent years. There are a number of factors that contribute to higher expenditure on each policy in the first year. The higher rate of commission that is customarily paid (35 per cent in the case of the L.I.C.) on the premium in the first year, as compared to the rate of commission for the premia paid in subsequent years, the cost of Medical Examination, policy stamps, the field organisation that the Insurer has to employ to procure new business, publicity etc. are items of expenditure that contribute to a higher expenditure in the first year of a policy. Essentially, therefore, there are two rates of expenses in the life insurance industry, the first year expense rate and the expense rate of the subsequent years. The corpus of business that a Life Insurance concern handles in any year includes policies that have been in force for less than a year and policies that have been in force for more than a year. Expenses incurred in connection with the former are designated first year expenses, and those in respect of the latter are what are known as renewal expenses. Thus the expenses of any one year consist of both first year expenses and renewal expenses.

Basic cost ratios :

1.5.1 An index of expenses has to relate expenses to income. In the case of insurance, the general practice in most countries has been to relate expenses to premium,* mainly because premia constitute the primary source of income of a Life Insurance Concern and it is in the premia that Insurers make a specific provision for expenses.

1.5.2 Since the incidence of expenditure under a policy is substantially higher in the first year after its issue two separate indices are required, one for the expenses of the first year and the other for the expenses of the subsequent years, i.e. renewal expenses. It will therefore be necessary to relate the respective expenses to the respective premia. To do this, it will be necessary to split the total premiums collected in a year into two parts,— premia paid under policies that have been in force for less than a year, and premia paid under other policies in force. In the technical parlance of insurance business these two are respectively designated as first year premium and renewal premium. The ratio of the First Year expenses to the first year premium collected during any year may be called the New Business Cost Ratio (NBCR), and the ratio of the Renewal Expenses to the renewal premium collected during the year may be called Renewal Cost Ratio (RCR). This is the nomenclature used by the L.I.C. to denote these two ratios.

Other insurers :

1.5.3 It can be observed in the case of most Life Insurance concerns that the new business cost ratio is higher than the renewal cost ratio. This is due to the fact that the rate of expenditure on a policy is higher during its first year. But this relationship between the two cost ratios need not be regarded as an invariable characteristic of life insurance business.

*In U.S.A. however, it is in relation to the total income including interest that the total expenses are considered.

Non-commission paying insurers:

1.5.4 For instance, in some of the States in India there are compulsory schemes for Government employees under which no amount is required to be spent under any of the following items of first year or renewal expenses—*viz.*, commission, medical fees (except to a limited extent), advertisement, field organisation etc. In the United Kingdom, there are non-commission-paying offices, though these are very few—three to be exact. Similarly in the United States of America in three of the States, there are Savings Banks Insurance Schemes in which no commission is paid, and medical expenses are considerably reduced because much of the business handled under the schemes is non-medical. Even in India, in pre-nationalisation days there were quite a few small concerns (e.g., The Bengal Secretariat Co-operative Insurance Society), mostly operating among special groups of persons; and these were not paying any commission. In all these cases the difference between the new business cost ratio and the renewal cost ratio is or was either negligibly small or considerably reduced. In the case of the L.I.C., however, all the items that go to make up the higher expenditure of the first year are present and it can, therefore, be observed that its new business cost ratio is substantially higher than the renewal cost ratio.

Premium as the unit:

1.5.5 Though we have stated earlier that expenses are usually examined in relation to the premium income, it has to be pointed out that the expenses do not vary directly, in a strict sense, with the premium income. Under hardly any item does the *total* expense bear such a direct relationship to *total* premium. Broadly, however, most items of expenses, apart from overheads, depend on one or other of the units used to measure business, viz., premium, sum assured and number of policies. Thus in understanding the full significance of an index of expenses relating only to premiums, other factors such as the average premium per policy, the average premium per Rs. 1,000 sum assured, and the average sum assured per policy are required to be taken into account. Premium income however is a convenient and sufficiently correct index, particularly for a short period during which variations in the other factors, even when they arise, are only marginal.

Overall expense Ratio:

1.6.1. The ratio of the expenses of any year to the total premium revenue for that year as shown in the Revenue Account is called the Overall Expense Ratio. This ratio is very widely used, but it has almost been universally admitted that it can hardly be relied upon as a correct index of the level of expenses of a life insurance concern. As we have already pointed out, there are two basic indices of expenses in life insurance industry, viz., NBCR and RCR. If any single index is taken as the sole index, it will oversimplify the position and, is therefore, likely to give a misleading picture. For instance, let us assume that the NBCR and RCR of Company A are 80 per cent and 20 per cent respectively, and of another Company, B, 78 per cent and 18 per cent respectively. It is clear that the level of expenses of B is lower than that of A. If the first year and the

renewal premiums of the two Companies are as shown in the following table, their overall expense ratios work out to 32 per cent (for Company A) and 33 per cent (for Company B) as shown below:

TABLE 1·1

	Company A	Company B.
(*i*) First Year Premium . .	Rs. 10,00,00,000	Rs. 10,00,00,000
(*ii*) Renewal premium . .	Rs. 40,00,00,000	Rs. 30,00,00,000
(*iii*) First year cost ratio . . .	80%	78%
(*iv*) Renewal cost ratio . . .	20%	18%
(*v*) First year expenses (*i*) × (*iii*) .	Rs. 8,00,00,000	Rs. 7,80,00,000
(*vi*) Renewal expenses (*ii*) × (*iv*) .	Rs. 8,00,00,000	Rs. 5,40,00,000
(*vii*) Total expenses (*v*) + (*vi*) .	Rs. 16,00,00,000	Rs. 13,20,00,000
(*viii*) Total premium . . .	Rs. 50,00,00,000	Rs. 40,00,00,000
(*ix*) Overall expense ratio (*vii*) ÷ (*viii*)	32%	33%

1.6.2 It will be seen that the reason why Company 'A' shows a smaller overall expense ratio (in spite of the larger cost ratios in its case) is that the ratio of the first year's premium to renewal premium in its case viz., 1:4 is substantially less than in the case of Company B (1:3).

1.6.3 Thus the overall expense ratio distorts the true picture of cost, by introducing a variable factor, viz., the proportion of the first year premium to the renewal premium.

1.6.4 Except with due regard to this variable factor, it is not possible to say merely from the overall expense ratio whether L.I.C's expenses are too high or sufficiently low. Again, unless this factor is approximately the same in the case of two insurers, it will not be possible to say, merely from a comparison of their overall expense ratios which one has a lower level of expenses. The overall expense ratio may be of little use even in examining the trend of expenses of any one insurer, since it is first necessary to see whether there are any variations in the proportion of the first year premium to the renewal premium. If there are any such variations, it may not be possible to come to any reliable conclusion from the overall expense ratio. It will happen very rarely that there are no such variations. Further, the expenses to be provided for in an insurer's valuations are those estimated to be incurred in future in respect of the business in force on the valuation date. The future period of this business in force is the second or a subsequent year of the policy, except that, in relation to the new business booked in the year preceding the date of the valuation, the unexpired part of its first year is included in this future period. However, a substantial part of the special expenses of the first year, practically all except commission, in respect of this new business, is already incurred in the expired part of its first year. Leaving, therefore, this exceptional case aside, it is clear that

the expenses required to be provided for in the valuation are those of the second and subsequent years of policies, i.e. renewal expenses. An overall expense ratio is a sort of weighted average of the substantially larger first year cost ratio and the very much smaller renewal cost ratio. It is, therefore, larger than the renewal cost ratio and smaller than the first year cost ratio. As the provision in the valuation is required to be based on the renewal cost ratio,* an overall expense ratio for the past period is an unnecessarily larger, and therefore, at least in some cases, (like the L.I.C.), an unsuitable standard with which to compare the provision made in the valuation for future expenses.

New Business Cost ratio and renewal cost ratio :

1.7.1 Since there are in fact two materially different rates of expenses in the life insurance industry, viz., the first year expense rate (NBCR) and the renewal expense rate (RCR), the best indices would be these two cost ratios themselves. This would mean the acceptance of two separate indices which would together indicate the economy of management both in relation to the cost of new business and of the administration of old policies in force. But it is clear that the calculation of these ratios depends on an analysis of expenses into first year expenses and renewal expenses. The correctness of the ratios and, therefore, their value will increase with the degree of accuracy that can be achieved in analysing expenses as first year and renewal expenses. It is true some of the items in the expenses like the first year commission, policy stamps, medical fees etc. are clearly identifiable as part of first year expenses. Some other items of expenses like renewal commission are clearly identifiable and allocable to renewal expenses. It is also equally clear that there are a number of common items which cannot be easily classified and allocated between first year expenses and renewal expenses. Salaries of staff, postage, printing, stationery, rent for office accommodation, expenses for advertisement and publicity etc., are items which contribute to expenses, under both heads, and it is, therefore, very difficult to evolve a pattern of analysis of these items which is acceptable to all insurers, or even valid for all years in the case of the same concern. The difficulty of this task has often led very eminent actuaries to suggest that such divisions for first year and renewal expenses can only be regarded as matters of opinion or surmise.

1.7.2 However, it will generally be agreed that if the apportionment of expenses between first year and renewal can be achieved on a scientific basis, and periodically revised to conform to current practices, the renewal cost ratio and the new business cost ratio resulting from such an analysis would perhaps be the best available standard. The possibility that different insurers may adopt different bases for apportioning expenses may certainly affect the utility of the renewal cost ratio and the new business cost ratio as standards that would enable a comparative evaluation of the expenses of different concerns to be made. But in our country today the Life Insurance Corporation is the only undertaking that does life insurance business, and the necessity for a comparative evaluation of the performance of different companies does not, therefore, arise. The new business cost ratio and the renewal cost ratio cannot. therefore, be rejected on this ground. The cost ratios for successive years based on an identical method

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*If the first year cost 8 ratio together with the percentages to the first year premium of the first year claims and the reserves required at the end of the first year exceed 100%, then the provision in the valuation based on the renewal cost ratio *alone* may prove inadequate if expenses and other liabilities under future new business are taken into account.

of allocation would be as good as any other system of consistent ratios for examining the trend of expenses. The renewal cost ratio based on a fairly reasonable analysis would perhaps be the best available standard for judging the adequacy or otherwise of the provision made for expenses in the valuation. *Again these cost ratios are more useful than any other index for determining the provision that should be made for expenses in the premium rates. Thus, all the functions of an index of measurement which have any relevance to the circumstances now obtaining can be fulfilled by the two cost ratios.

1.7.3. We do not, however, think that the need to carry out a proper apportionment or allocation should tempt our Committee itself to prescribe a definite method of analysis. This is a job that calls for considerable expertise, and it is only experts who are fully conversant with every detail of the items and implications of the different kinds of expenditure that are incurred who can suggest the details of such an analysis. Besides, the method of analysis has to be changed periodically to allow for the changes in the past procedures that are adopted. This, however, need not affect the process of comparing the results from year to year. For, whenever changes are made in the method in the first year in which the change becomes effective, an analysis according to the old method may also be made in addition to the analysis on the new basis. This will facilitate comparison.

Renewal Expense Ratio (General & Historical):

1.8.1. The difficulty of evolving a common pattern of analysis applicable to all insurers is of course still felt in countries where competing insurance companies function. In India too, this difficulty was acutely experienced in the days prior to nationalisation. This difficulty has often led to a research for a set of assumptions that could indicate the relative magnitudes of the first year and renewal expenses. One of the methods that has often been employed to tide over this difficulty, and is still being employed, in some countries, is to accept a commonly applicable assumption, a relation between first year expenses and renewal expenses, based on a study of factors that contribute to the two types of expenses. The ratios worked out on the basis of such assumptions are referred to in this report as "expense ratios", with a view to distinguishing them from cost ratios based on an analysis of expenses.

Position in the U.K.:

1.8.2. In the United Kingdom, "Stone and Cox" have based their calculations of the renewal expense ratio on the basis of an assumption that the new business expense ratio is 10 times the renewal expense ratio.

Position in the U.S.A.:

1.8.3. In the United States, BEST Life Insurance Reports present statistics about average renewal expense ratios based on the assumption that the N.B.C.R. is generally five times the R.C.R., both being expressed in terms of the sums assured (and not the premium) which is regarded as the unit. A certain correction is, however, applied for lower or higher average rates of premium.

*** See footnote on Page 12.**

Position in India :

1.8.4. In India too, the search for a simple and suitable assumption that could relate to the new business expense ratio and/or the renewal expense ratio went on till about 1930. In 1916, the Government Actuary (the equivalent of the present Controller of Insurance) used the assumption that the first year expense ratio was 100 per cent of the first year premium income, which showed that the level of renewal expenses of Indian companies was 12-1/2 per cent of the renewal premium income during those days.

The 7 *to* 1 *assumption* :

1.8.5. About a decade later, in the Indian Insurance Year Book of 1927, the Government actuary stated the values of the overall expense ratios for various years for the companies as a whole, and remarked that "expense ratios for the companies as a whole if calculated in this manner (in the manner or overall expense ratios) failed to give any indication of the ratios of the smaller companies, as these are swamped by the comparatively large figures of the larger companies" and, after pointing out the defects of this method, tabulated "the expense ratios for new and renewal business of the Indian Mutual and the proprietary companies and also non-Indian Companies transacting life insurance business in India on the assumption that expenses applicable to each policy are seven times greater in the first than in each subsequent year of its existence." Here again, it can be seen that the purpose of making the assumption 7:1 was only to obtain an idea of the expenses of younger companies. Adoption of this basis of calculation, however, revealed that 38 out of 57 companies had a new business expense ratio of more than 100 per cent.

1.8.6. It is necessary here to point out the significance of a new business expense ratio that is higher than 100 per cent of first year premium income. Even if the premiums on the whole provide for first year expenses of the order of 100 per cent, a strain is created at the end of each year in respect of the new business of the year, when expenses in respect of this business exceed the income from it, viz. the first year premium. This strain has then to be borne by funds available from the old business. If, therefore, the company is to continue transacting new business from year to year, the reserves required for its existing business will have to provide not only for the liabilities (expenses, claims, etc.) under the existing business but also for the strain arising from year to year in respect of its future new business (generally referred to as the "New Business Strain"). The discovery of a new business expense ratio of more than 100 per cent immediately made it necessary to examine whether the valuation of the companies having a new business expense ratio of that order made adequate provision to meet the new business strain.

Introduction of the 90 *per cent formula* :

1.8.7. With a view to examining whether the valuation of companies experiencing this new business strain made proper allowance for it, Mr. H. G. W. Meikle the then Government Actuary, suggested yet another assumption in the Insurance Year Book of 1928. It should be pointed out here that new business strain can arise even when the new business

expense ratio is less than 100 per cent. Broadly speaking, new business strain is the excess, if any, of the total of the first year expenses, the first year claims and the Reserves required at the end of the first year, over the first year premium. If the proportion of this total to the premium exceeds 100 per cent, then new business strain arises. In the 1928 Insurance Year Book, Mr. Meikle explained why he had decided to revise the 7:1 assumption and said

> "Also instead of assuming that the first year's expenses are seven times as heavy as the renewal expenses, I have assumed that the expenses applicable to the first insurance year equal to 90 per cent of the new premiums actually received in that year. It may be pointed out that the full amount of these new premiums is generally not actually available for expenses, as under the policies effected in India usually a portion in excess of 10 per cent is required to meet the claims which arise in the first year."

The whole purpose of Mr. Meikle in making this suggestion was to see that the valuation made proper provision for the new business strain arising in future. He did not apply his suggestion to all companies, but only to such companies, as appeared to him as having a new business expense ratio of more than 100 per cent and in whose case, therefore, he was sure that the new business strain did arise. Further, in calculating the new business strain, he not only took the first year expenses into account but also the first year claims. Even so, this left one item out of account, and that is the reserves required at the end of the first year in respect of new business, unless these reserves are zero as a result of the valuation method adopted, it would appear that this item should also be taken into account while examining whether new business strain arises.

1.8.8. It is thus clear that the renewal expense ratio based on the assumption of a first year expense ratio of 90% was required merely for judging the adequacy or otherwise of the provision made for future expenses in a valuation, particularly in the case of those companies whose new business expense ratio was more than 90%.

1.8.9. *Life Insurance Companies' Rules* 1930.—But the 90% rule suggested by Mr. Meikle was incorporated as one of the statutory rules in the Life Insurance Companies' Rules 1930, and made applicable to all companies. This Rule added the following among the particulars to be stated by an Actuary making a Valuation:

> "The proportion of the renewal premium income spent in payment of commission and other expenses in each year during the period since the last investigation after allowing for the cost of new business in the year, 7½% of single premiums and 90% of first year premium falling due in the year after deduction of those unpaid under policies allowed to lapse in the year."

1.8.10. *Insurance Rules* 1939.—This requirement was incorporated without any change as Rule 25(b) in the Insurance Rules 1939, framed in pursuance of the Insurance Act 1938 which replaced the earlier Indian Life Insurance Companies Act, 1912.

1.8.11. *Drawbacks in Rule 25(b) of the Insurance Rules, 1939.*—Later on, it was found that insurers had developed a tendency to issue more short term policies* because of the artificially low renewal expense ratio which short term policies indicated on the basis of Rule 25(b) which enabled companies to provide as small a loading margin as possible in the valuation, with apparent justification, and thereby mask the effects of their extravagance. The reason why short term policies indicated a low renewal expense ratio was that the actual first year expenses under these policies are ordinarily very much less than those allowed by the then Rule 25(b), and consequently the actual renewal expenses were more than those shown by the rule.

1.8.12. *Amendment of Rule 25(b) in 1947.*—It was to put a stop to this practice that Rule 25(b) was amended in 1947 to provide a *graded* scale of first year expense allowance from 7½% for single premiums to 90% for first year premiums where the premium-paying period is 12 or more years. The text of the amended rule 25(b) and the context in which it applies are stated below.

1.8.13. *Amended Rule 25(b).*—Rule 25(b) which, *inter alia,* lists the matters on which a valuing actuary has to furnish statements makes special mention of the following:—

> "The proportion of renewal premium income spent in payment of commission and other expenses in each year during the period since the last investigation, after allowing, as the cost of the new business of the year, seven and half per cent, of single premiums including consideration for annuities granted, and seven and half per cent for each year of the maximum premium-paying period, but not exceeding ninety per cent, in all, of first year's premium falling due in the year after deduction of those unpaid under policies allowed to lapse in the year."

1.8.14. Thus, the rule asks Actuaries to state, as a percentage of the renewal premium income, the residue of the total expenses after deducting from it the prescribed portion of the first year premium permissible for first year expenses. The residue is to be obtained by taking from the total expenses certain *assumed* first year expenses, and therefore, the residue is in the nature of assumed renewal expenses. It is the proportion of these *assumed* renewal expenses to the renewal premium, *i.e.* the renewal cost ratio based on a certain assumption, that the rule requires the Actuary to calculate for each year and include in his valuation returns. It is this renewal cost ratio based on certain assumed first year expenses that has been known for nearly 40 years in the Indian Insurance circles as the renewal expense ratio.

1.9.1. *A Critical Appraisal of the present Renewal Expense Ratio: NBER*—It is not unoften that one comes across references to the allowance for new business referred to in Rule 25(b) as 90% of the first year premiums. The Rule, however, lays down 90% as applicable only in respect of policies in which the maximum premium paying period is 12 year or

*Mr. L. S. Vaidyanathan, in his presidential address to the Actuarial Society of India, 27th April, 1946.

more. In the case of policies where the maximum premium paying period is less than 12 years, the allowance under the Rule is at the rate of 7½% for single premium policies, 15% for policies with a maximum premium paying period of 2 years etc., leading up to 90% in the case of policies with a premium paying period of 12 years or more. Therefore, the total first year expense allowance prescribed under the Rule works out on an average to somewhat lower than 90%. In the case of the L.I.C. this percentage on an average, has been 84% of the first year premium. It may, therefore, be taken that the renewal expense ratio is the proportion of the residue of the total expenses, obtained after deducting from the total expenses 84% of the first year premium, expressed as a percentage of the renewal premium income. We shall refer to this figure of 84% as the prescribed new business expense ratio (NBER).

Relation between various ratios :

1.9.2. The relationship between the renewal expense ratio (RER) and the two cost ratios,—the new business cost ratio (NBCR) and the renewal cost ratio (RCR)—has to be borne in mind for understanding the merits and the demerits of the RER. This relationship may be deduced from the Corporation's own analysis, or allocation, of expenses between first year and renewal. The estimate of the NBCR that appears in the analysis of actual expenses made by the Accounts Department of the Corporation is about 70 per cent as against the *prescribed* NBER of 84 per cent. Thus it can be seen that Rule 25(b) allocates to first year expenses a larger portion of the total expenses than that shown in the Accounts Department's analysis, the difference being about 14 per cent [(84-70) per cent] of the first year premium. This, in turn, leads to the allocation to renewal expenses of a smaller portion of the total expenses than what is shown in the Accounts Department's analysis, the difference again, being the same 14% of the first year premium. The renewal expenses allocated by the rule, divided by the renewal premium, gives the statutorily defined RER; and the renewal expenses allocated by the Accounts Department divided by the same renewal premium gives the Accounts Department's estimate of the RCR. Since the former renewal expenses are less than the latter by about 14% of the first year premium, RER becomes less than RCR by about 14% of the first year premium divided by the renewal premium. In general,

$$\text{RER} = \text{RCR} - (\text{NBER} - \text{NBCR}) \times (\text{Ratio of the first year premium to the renewal premium}).$$

The overall expense ratio (OER) can be similarly expressed as

$$\text{OER} = \text{RCR} + (\text{NBCR} - \text{RCR}) \times (\text{Ratio of the first year premium to the total premium}).$$

The ratios of the first year premium to the renewal and the total premium are interdependent, since the total premium is the sum of the first year premium and the renewal premium. Thus both RER and CER depend not merely on the cost ratios, which are the proper indices of economy of management, but also on the additional factor, viz. the ratio of the first year premium to the renewal or total premium. This additional factor being essentially the same in the two cases, both OER and RER have similar

advantages and disadvantages. Therefore, so far as the non-technical uses of a measure of expenses are concerned, RER suffers from the same defects as the OER. For deciding whether expenses are high or low, or whether one company is more economically managed than another, or even for examining the trend of expenses of the same company, both the OER and RER are equally defective.

RER misleads :

1.9.3. Many witnesses who appeared before the Committee, including the Actuarial Society of India, expressed the view that the renewal expense ratio is defective, and does not correctly measure the renewal cost of a company, mainly because it ignores the actual cost incurred in the first year, and, instead, makes an arbitrary assumption that the first year cost is a more or less fixed percentage of the first year premium. How the renewal expense ratio is defective for comparing the level of expenses of two companies can be seen from the following example :—

Between two companies, A and B, if the first year and the renewal cost ratios of A are, say, 66 per cent and 12 per cent respectively, and those of B are 67 per cent and 13 per cent respectively, then one will normally conclude that Company B is spending more out of its premiums than Company A. But the renewal expense ratio can give a distorted picture if the proportion of the first year's premium to the renewal premium is materially different between Companies A and B, Company B showing lower renewal expense ratio than Company A. For instance, let us assume that in a particular year, Company A has its first year and renewal premium equal to Rs. 10,00,00,000 and Rs. 50,00,00,000 respectively, and Company B Rs. 17,00,00,000 and Rs. 56,00,00,000 respectively. The following table illustrates the procedure of calculating the renewal expense ratio according to Rule 25(b):

	Company A	*Company B*
(*i*) First Year Premium . . .	Rs. 10,00,00,000	Rs. 17,00,00,000
(*ii*) Renewal Premium . . .	Rs. 50,00,00,000	Rs. 56,00,00,000
(*iii*) First Year cost ratio . . .	66%	67%
(*iv*) Renewal Cost Ratio . . .	12%	13%
(*v*) First Year Expenses (*i*) and (*iii*) .	Rs. 6,60,00,000	Rs. 11,39,00,000
(*vi*) Renewal Expenses (*ii*) and (*iv*) .	Rs. 6,00,00,000	Rs. 7,28,00,000
(*vii*) Total Expenses (*v*) + (*vi*) .	Rs. 12,60,00,000	Rs. 18,67,00,000
(*viii*) Allowance for First Year Expenses [84% of (*i*)]	Rs. 8,40,00,000	Rs. 14,28,00,000
(*ix*) Balance Expenses . . .	Rs. 4,20,00,000	Rs. 4,39,00,000
(*x*) Renewal Expenses Ratio [ix ÷ (*ii*)]	8·40%	7·84%

It will be seen that the renewal expense ratio of Company B which has spent relatively more out of its premium, has actually turned out to be less than that of Company A.

Not useful for comparisons :

1.9.4. The example that has been cited above clearly illustrates the difficulty in adopting the renewal expense ratio as a basis for making a comparative evaluation of the level of expenses of different companies. It is obvious that if we adopt the RER as the basis for comparing companies that have different ratios of first year premium to the renewal premium, we will not be able to arrive at tenable conclusions.

1.9.5. It may perhaps be argued that an example like that of companies A and B in paragraph 1.9.3. might well have arisen when many companies were operating, but now when insurance is nationalised, and there is a single Corporation doing life insurance business, it is not practicable for the L.I.C. as a whole to show from one year to another such a large variation in the ratio of the first year premium to the renewal premium as is observed in the example that has been cited. The basis of such an argument is that in a short period, the first year premium in any institution like the L.I.C. may not rise by so much as in the above example and in a long enough period when it may rise by so much, it is hardly possible for the renewal premium to change by such a small margin as in the example. This may be accepted as a general statement, but there have been exceptions. From 1953 to 1954, the "New India" increased its first year premium by more than 70%, whereas its renewal premium remained practically stationary, the increase being less than 4.15%.

RER may induce extravagance :

1.9.6. However, the fact that the renewal expense ratio sometimes gives a misleading picture is not its only defect. There is another, and a more serious, defect in it which arises particularly when the first year cost ratio of an insurer is consistently and appreciably less than the prescribed new business expense ratio (84% in the case of the L.I.C.). For such an insurer it is possible to show a lower renewal expense ratio, even though the first year expenses are relatively increased, provided he secures a sufficiently large volume of new business. This possibility is enough to induce him to actually incur relatively larger first year expenses in achieving a sufficiently high new business target in the hope that this may not still lead to an increased renewal expense ratio. If the target is in fact achieved, or even sufficiently nearly achieved, then the renewal expense ratio may not increase, and all that may sometimes happen is that the true position may not be revealed. If, however, the target is not achieved even sufficiently nearly, as may well happen if the target itself is unrealistically high or other factors intervene, then the more serious effect of the inducement results. Expenses increase, perhaps permanently, and on account of the high degree of non-fulfilment of the target, a higher renewal expense ratio emerges. That the renewal expense ratio may not, under certain circumstances, reveal the true state of affairs is bad enough, but what is worse is that it may induce an insurer to incur comparatively higher expenses on the procuration of new business and may thus itself lead to a higher renewal expense ratio.

1.9.7. In this connection it may be noted that, for such an inducement to occur, the analysis of expenses showing the first year cost ratio to have been less than 84% (the assumed prescribed new business expense ratio) need not be meticulously correct. It is enough if it reveals that the first year cost ratio is appreciably less than 84%, over a period of years so that marginal increases in the first year cost ratio may not make it exceed 84%. It is true that to produce such a consistent result the analysis must be reasonable to a degree, but beyond that nothing more is necessary.

Economy no criterion with RER :

1.9.8. It may well be asked, what is wrong in increasing business with a view to reducing or at least controlling the cost ratio. The answer is obvious. There is nothing wrong provided it is the cost ratios that are reduced or controlled and not merely the renewal expense ratio. The difficulty arises because the renewal expense ratio is not a correct standard of measuring expenses, and, even if the cost ratios increase (as long as the first year cost ratio is consistently and appreciably less than the prescribed new business expense ratio) it is possible for a lower renewal expense ratio to emerge, if a sufficiently large amount of new business is done. Of course, there are practical limitations to such a process of increasing the new business as much as desired or required, but what these practical limitations are is very often seen only when they actually begin to operate, by which time a higher renewal expense ratio may already have emerged. In short, the renewal expense ratio allows an insurer to subordinate the consideration of economy in planning for an increase in new business. It is difficult to say that this subordination of the consideration of economy in planning for new business has not occurred in the case of the L.I.C.

Excerpts from L.I.C.'s document :

1.9.9. The following excerpts, one from the Note for the Services and Budget Committee Meeting of the Corporation in 1959, and another from Annexure I to the report of the "Committee on organisational set up of the Corporation, 1963" give a glimpse of certain beliefs and attitudes that affected the working of the Corporation :—

Extract 1. (a) "While considering any cuts to be effected in the budgeted expenses under the various heads, it is to be remembered that the renewal expense ratio of the Corporation is dependent not only on the expenses but to a very considerable extent on the premium income, particularly the first year premium income .... It may be mentioned that if the Corporation is able to exceed substantially the business target fixed for the year 1959 so that the first year premium income is increased by say, about one crore, it would mean after allowing fixed expenses such as commission, medical fees, policy stamps, etc., which are directly related to the first year premium income, a reduction of about 0.7% in the renewal expense ratio. On the other hand, if our expectations regarding new business are not realised and the actual first year premium income falls substantially below the estimate given in the budget, it would *materially increase our renewal expense ratio even though we may have succeeded in cutting down our expenses under various heads.*

It is, therefore, essential that while considering any cuts in the budgeted expenses, no steps should be taken which would in any way affect our business getting organisation and the pace of expansion of business." (underlining ours.)

Extract 2.—The two most important criteria which should govern any suggestions regarding changes in the administrative set up of Division or Branch Office are the need for maximum efficiency and economy. However, while considering any changes in the administrative set-up or procedure with a view to achieving greater efficiency or economy, it will have to be kept in mind that the renewal expense ratio of the Corporation is *more affected by changes in the first year premium income than by an increase or decrease in the quantum of expenditure.* Rapid expansion in our new business and in the first year premium income will help in reducing the renewal expense ratio to a greater extent than any reduction in our expenses achieved by measures of economy. It is, therefore, essential to ensure that any administrative changes we may consider are conducive to a more rapid expansion of our new business." (underlining ours.)

1.9.10. It is clear from these two excerpts that "increase in new business" and "reduction in expenses" were considered solely in the context of their effect on the renewal expense ratio, and preference was given to increase in new business, and not reduction in expenses, as a means of reducing the renewal expense ratio. It will be readily admitted that a sound policy of economy and efficiency would require a constant effort to balance an anticipatory increase or decrease in expenses with an anticipatory increase or decrease in the new business resulting from it. It is difficult to say that the excerpts that have been quoted give strong evidence of the Corporation's efforts to seek such a balance. In fact the tenor of the notes reflects a complacent reliance on increase in new business in preference to measures of economy, perhaps fostered by the defective standard, viz., the renewal expense ratio.

1.9.11. It is sometimes argued that the L.I.C. Act lays down that one of the objectives of the Corporation should be to develop and expand business to make insurance available to the largest possible number in the community, and this imposes an obligation on the Corporation to promote new business even at the cost of increasing expenses. We shall deal with this question in detail elsewhere in this report, but we wish to point out here that these excerpts lay a greater emphasis on increase in new business not in the name of the objective of making insurance cover available to an increasing number of people but as a means for reducing the renewal expense ratio. However, whatever view one may hold on whether the continuance of the defective standard of the RER has or has not lead to a subordination of considerations of economy in the L.I.C. it must be said that a measure of expenses which can cause such an effect deserves to be ruled out on that account itself.

RER not helpful for growth in Renewal Premium

1.9.12. The renewal expense ratio suffers from yet another major defect as can be seen from the following example:

Taking the case of Company 'A' referred to in the example in para 1.9.3., the position of the same company in the subsequent year may be examined on the following three assumptions :—

Assumption (a):

The renewal premium shows a natural increase to Rs. 58,00,00,000 (allowing for lapses and claims) and the New Business. Renewal Cost ratios remain unaltered.

Assumption (b):

The growth in the renewal premium is not much (due to poor quality of business etc.) and so the renewal premium increases only to Rs. 52,00,00,000, and the cost ratios remain the same.

Assumption (c):

The growth in the renewal premium is the same as in assumption (b), but the new business cost ratio increases to 67 per cent while the renewal cost ratio remains stationary.

1.9.13. The first year premium necessary in the subsequent year to maintain the same renewal expense ratio can be estimated under each of the assumptions by the use of the formula,

RER=RCR—(NBER—NBCR) X (Ratio of first year to renewal premium),

explained in para 1.9.2.

1.9.14. If, as in assumptions (a) and (b) above, the cost ratios remain the same, then, in order that the RER should also remain the same, the ratio of the first year premium to the renewal premium should be the same; or in other words, the percentage increase in the first year premium should be the same as in the renewal premium. Thus under assumption (a), the renewal premium increases from Rs. 50 Crores to Rs. 58 Crores, an increase of 16 per cent; so the increase in the first year premium should also be 16 per cent; or the first year premium should increase from Rs. 10 crores to Rs. 11.6 Crores. Similarly, under assumption (b), the increase in first year premium should be 4 per cent, or the first year premium should be Rs. 10.4 Crores. If the actual first year premium is more than the figure estimated as above, the RER will show a decrease; while if the actual first year premium is less than this figure, the RER will increase. Thus the minimum first year premium required so that the RER may not increase will have to be equal to the figure as estimated above [viz., Rs. 11.6 Crores under assumption (a) and Rs. 10.4 Crores under assumption (b)].

1.9.15. The minimum first year premium required under assumption (c) can be estimated from the above formula, and it can be seen that since NBCR has increased the factor NBER—NBCR has decreased, with the result that the ratio of the first year to the renewal premiums has now to be higher to show the same RER.

1.9.16. The effect of the three assumptions is apparent from the following table:

	Year : N	Year : N+1		
		Assumption (*a*)	Assumption (*b*)	Assumption (*c*)
	Rs.	Rs.	Rs.	Rs.
(*i*) First Year Premium Income	Rs. 10,00,00,000	Rs. 11,60,00,000	Rs. 10,40,00,000	Rs. 11,01,20,000
(*ii*) Renewal Premium Income	Rs. 50,00,00,000	Rs. 58,00,00,000	Rs. 52,00,00,000	Rs. 52,00,00,000
(*iii*) First Year Cost Ratio	66%	66%	66%	67%
(*iv*) Renewal Cost Ratio	12 %	12%	12%	12%
(*v*) First Year Expenses : (*i*) × (*iii*)	Rs. 6,60,00,000	Rs. 7,65,60,000	Rs. 6,86,40,000	Rs. 7,37,80,400
(*vi*) Renewal Expenses : (*ii*) × (*iv*)	Rs. 6,00,00,000	Rs. 6,96,00,000	Rs. 6,24,00,000	Rs. 6,24,00,000
(*vii*) Total Expenses : (*v*) + (*vi*)	Rs. 12,60,00,000	Rs. 14,61,60,000	Rs. 13,10,40,000	Rs. 13,61,80,400
(*viii*) Allowance for first year expenses (at 84%)	Rs. 8,40,00,000	Rs. 9,74,40,000	Rs. 8,73,60,000	Rs. 9,25,00,800
(*ix*) Balance of expenses (*vii—viii*)	Rs. 4,20,00,000	Rs. 4,87,20,000	Rs. 4,36,80,000	Rs. 4,36,79,000
(*x*) Renewal expenses Ratio (*ix* ÷ *ii*)	8·40%	8·40%	8·40%	8·40%

It will be seen from the above table that the company with a very good increase in the renewal premium under assumption (a) and no increase in cost will have to get Rs. 11.6 crores of first year premium to maintain the RER while if the increase in the renewal premium were less, as under assumption (b), it would be sufficient if it gets a first year premium of only Rs. 10.4 crores. This means that it is more difficult for an insurer to maintain its RER if its business is of good quality and the renewal premium increases substantially, while, if the growth in renewal premium is not much due to the bad quality of its new business, it is easier for the company to maintain its RER as it has then to secure a smaller new business. In fact if it is lucky, and is able to do more than the minimum necessary under assumption (b), it can even show a reduction in the RER though the cost ratios remain stationary.

1.9.17. Not only that, but even if the new business cost ratio increases, as under assumption (c), the RER may still be reduced if only a sufficiently large first year premium, (i.e larger than Rs. 11,01,20,000 say Rs. 11,05,00,000) is secured. Even this figure of first year premium (Rs. 11,05,00,000) required for showing a reduced RER is less with assumption (c) (illustrating new business of bad quality secured at a higher cost) than what is required even to maintain the RER under assumption (c) (illustrating new business of bad quality secured at a steady cost). It is thus seen that a satisfactory growth in the renewal premium income as under assumption (a) makes it much more difficult for an insurer to maintain his RER even though the cost ratios do not increase, than a poor growth in the renewal premium as under assumptions (b) & (c), even though the NBCR increases as under assumption (c).

1.9.18. This feature of the RER is likely to produce in the insurer an attitude of indifference towards lapses, and of paying greater attention to securing more and more new business as compared to the conservation of business already booked. In fact it is a disturbing feature of the RER, that, if it rises, a desirable thing like substantial growth in the renewal premium may also be a contributory factor for its rise.

1.9.19. In this context the following extract from a note to the Services and Budget Committee of the Corporation presenting the Budget for 1965-66, is of considerable interest.

> "(iv) For the last two years there has been no substantial increase in the first (year) premium of the Corporation whereas renewal premium income has increased substantially. It is on account of this fact that the renewal expense ratio of the Corporation for the year 1964-65 is expected to touch the statutory limit of 15 per cent as already indicated."

1.9.20. It has already been shown in para 1.9.2 that RER=RCR—(NBER—NBCR) X (the ratio of the first year premium to the renewal premium). Thus a company having a new business cost ratio (NBCR)

less than the new business expense ratio (NBER) under Rule 25(b)consistently over a period of years is able to convert this difference into a diminution in its renewal expense ratio (RER) as compared to its renewal cost ratio (RCR) in the proportion that the first year premium bears to the renewal premium.

1.9.21. But the renewal premium of an Insurer is not stationary. It increases from year to year, the rate of increase depending, among other things, on the quantum and quality of the new business done. With this increase in renewal premium, one finds that the RER does not remain stationary (even if the NBCR and RCR are constant) unless the first year premium too increases in the same proportion as the renewal premium.

1.9.22. The increase in the same proportion in the first year premium naturally implies an even greater and greater first year premium. For instance, it is seen that the first year premium necessary to maintain the RER is Rs. 11,60,00,000 in the year N+1 under assumption (a). Let it be further assumed that under assumption (a) the renewal premium increases by Rs. 8,00,00,000 p.a. Then in order that the RER may remain the same, the first year premium required in the years N+2, N+3, etc., is Rs. 13,20,00,000, Rs. 14,80,00,000, etc. If in an effort to bring more and more new business of this magnitude the NBCR rises—a situation perhaps very difficult to avoid—the difference NBER—NBCR becomes smaller, so that if RER is to remain the same, the first year premium required is still larger. Thus every year, a responsive escalation in new business becomes an imperative necessity (to match the increase in the renewal premium) even if the cost ratios remain the same. If in an attempt to secure more and more new business the NBCR rises, a stage may be reached, when it may not be possible to secure the necessary amount of new business. The RER will then rise.

Examples from Divisions' ratios :

1.9.23. One can quote examples from the experience of the Corporation itself to show that the renewal expense ratio does not provide a reliable standard for evaluating the renewal cost of an Insurer.

1.9.24. To take one instance, the cost ratios of the L.I.C. in 1963-64 were less than those of 1961, but the renewal expense ratio in the former year was greater than that in the latter year.

1.9.25. The L.I.C. has calculated its overall expense ratio, renewal expense ratio, New Business cost ratio and Renewal Cost Ratio for all the years from 1958 onwards, not only for the Corporation as a whole but also for Divisions. These are shown in Appendix 2. It must, however, be pointed out that these ratios reflect only the expenses at the Branch and Divisional levels since the overheads relating to the Central and Zonal Offices have not been taken into account in arriving at these figures. Even so, a study of these ratios reveals many of the defects and vagaries of the RER.

Negative RER :

1.9.26. From the figures given in Appendix 2, it will be seen that the Renewal Expense Ratios of the following D.Os. are negative. (The other cost ratios for the same D.Os. for the same year are shown below in the

same line against the D.Os. concerned). A negative RER would mean that the management of renewal business merely does not require any expenditure, but produces an income.

Name of Divl. Office.	Year	Overall Expense Ratio	Renewal Expense Ratio	New Business Cost Ratio	Renewal Cost Ratio
Bombay .	1959	29·82	Minus	52·80	14·55
	1960	24·96	Minus	51·72	13·34
	1961	22·00	Minus	50·16	12·63
Madras .	1958	48·12	Minus	63·71	28·46
	1960	29·82	Minus	54·46	16·18
Jabalpur .	1959	42·14	Minus	63·76	21·12
Rajkot .	1959	36·40	Minus	61·01	15·69

Low RER :

1.9.27. An unusually low Renewal Expense Ratio is shown in the following cases in spite of the fact that renewal costs cannot be said to be on the low side, as is seen from the renewal cost ratio :—

Name of Divl. Office	Year	Overall Expense Ratio	Renewal Expense Ratio	New Business Cost Ratio	Renewal Cost Ratio
Delhi . .	1958	39·56	0·00	68·33	20·69
Do. .	1959	30·91	0·80	61·39	15·42
Trivandrum .	1959	36·56	1·43	61·80	18·98
Hyderabad .	1959	39·11	3·28	66·50	18·64
Agra . .	1958	57·36	0·56	80·21	26·94
Indore .	1959	41·10	1·70	58·50	21·03
Ahmedabad .	1958	51·14	2·13	67·52	29·96

RER increases when costs decrease :

1.9.28. The following instances show that the increase in the Renewal Expense Ratio is misleading since it gives the impression of extravagance when the basic costs of the Divisional Office viz., NBCR and RCR have actually decreased during the period.

Name of Divl. Office	Year	Overall Expense Ratio	Renewal Expense Ratio	New Business Cost Ratio	Renewal Cost Ratio
(i) Ajmer	1958 1963-64	46·01 35·23	7·4 10·15	86·96 69·51	36·78 19·30
(ii) Chandigarh . .	1958 1963-64	55·91 33·95	8·9 13·59	76·85 74·94	27·00 18·79
(iii) Delhi .	1959 1963-64	30·91 23·11	0·80 6·16	61·39 57·74	15·42 14·20
(iv) Madras .	1961 1964-65	26·10 23·82	1·50 3·16	55·11 53·76	14·39 14·04
(v) Madurai	1960 1963-64	34·30 27·20	9·17 10·51	66·62 62·83	18·89 17·27
(vi) Kanpur	1961 1963-64	34·12 30·26	9·23 9·54	70·53 68·18	17·60 17·32
(vii) Varanasi	1960 1963-64	44·21 35·35	11·93 12·79	74·94 70·86	22·99 20·44
(viii) Machlipatnam .	1959 1961	36·74 32·50	6·71 9·69	67·19 66·69	18·54 18·20
(ix) Jabalpur	1960 1961	37·09 32·64	Minus 1·61	60·66 58·65	19·31 18·33
(x) Calcutta . . .	1959 1963-64	43·46 28·51	9·80 12·52	72·23 68·19	24·39 18·39
(xi) Bombay	1959 1965-66	29·82 18·99	Minus 2·46	52·80 50·09	14·55 12·33
(xii) Ahmedabad .	1959 1964-65	39·94 23·31	3·50 8·52	66·32 61·06	20·41 14·93
(xiii) Nagpur	1961 1964-65	36·51 27·79	11·51 12·26	69·25 66·33	20·67 17·92
(xiv) Rajkot	1960 1963-64	32·50 18·99	0·16 4·00	60·97 57·53	16·55 13·46

RER Decreases when costs increase :

1.9.29. The following are cases that show a change in the reverse direction. The Overall Expense Ratio and the Renewal Expense Ratio have decreased suggesting more economic management, but the basic cost ratios (the new business cost ratio and renewal cost ratio) have actually increased.

Name of Divl. Office	Year	Overall Expense Ratio	Renewal Expense Ratio	New Business Cost Ratio	Renewal Cost Ratio
(i) Varanasi	1962-63 1965-66	39·42 35·77	19·56 18·83	74·04 79·91	21·55 21·97
(ii) Indore	1962-63 1965-66	31·97 28·71	12·53 11·80	66·90 69·54	17·19 17·41
(iii) Lucknow	1962-63 1964-65	41·74 35·68	25·20 20·10	77·98 82·20	17·52 22·05

Different RER for same costs :

1.9.30. In the following cases, 2 Divisional Offices have aproximately the same basic cost ratios, but their Renewal Expense Ratios and Overall Expense Ratios are strikingly different. Where the basic costs for 2 or 3 offices are approximately the same, it may naturally be expected that any reliable measure of expenses would bring out nearly equal values for each of such Offices. The following instances show that neither the OER nor the RER satisfies this condition.

Name of Divl. Office	Year	Overall Expense Ratio	Renewal Expense Ratio	New Business Cost Ratio	Renewal Cost Ratio
(*i*) Ajmer	1961	35·71	9·50	68·97	18·88
Coimbatore	1965-66	27·40	12·16	68·05	17·00
(*ii*) Delhi	1958	39·56	0·00	68·33	20·69
Kanpur	1962-63	34·50	16·19	68·58	20·13
Varanasi	1961	39·24	8·46	68·57	21·09
(*iii*) Madurai	1964-65	26·97	11·76	64·38	17·49
Ahmedabad	1960	31·92	6·47	64·34	17·46
(*iv*) Madras	1965-66	25·52	8·80	61·22	15·81
Rajkot	1959	36·40	Minus	61·01	15·69
(*v*) Poona	1963-64	27·98	10·38	62·81	17·91
Surat	1960	32·33	5·76	63·17	17·87

Further Considerations :

1.10.1. It may be noted from paras 1.9.6 and 1.9.18 that it is only when the NBCR is less than the NBER, that the statutory limit on the RER may prompt considerations of economy to be subordinated, or occasion an attitude of indifference towards a satisfactory growth in the renewal premium. According to one view that was presented to us, L.I.C., has now come very near to, if not actually reached, the position when the NBCR is equal to the NBER. It is, therefore, suggested that the renewal expense ratio may be allowed to continue as the statutorily recognised standard for measuring expenses. We are unable to accept this suggestion for the following reasons :—

(i) The RER is a correct measure of renewal expenses only when the NBCR is practically the same as NBER. Even though the supporters of the suggestion hold that at present this position has been or is being reached, they do not say that NBCR will for all time to come be practically the same as the NBER. The suggestion is based on the Actuaries' Method of analysing the expenses, which shows that in the early years, the L.I.C's. NBCR was less than the NBER, and it has been only over the years that the L.I.C. has slipped into the position of the weak Indian Companies of 1920's with heavy first year expenses. Further the Actuaries' figures show that the L.I.C's. NBCR has been increasing steeply in recent years. So if it has now reached the NBER, in all probability it may continue to increase further unless corrective steps are taken. Thus it cannot be said that, even though at present the NBCR

is equal to the NBER the position will continue unchanged for all time to come. Therefore, the RER cannot be a correct measure of expenses even under the circumstances on which the suggestion is based.

(ii) The situation pointed out in the beginning of this paragraph as likely to develop from the RER, whenever the NBCR is less than the NBER, has reference to the NBCR according to the method of analysis by which the expenses are planned and controlled. If at present there is any such method of analysis by which expenses appear to be planned and controlled, it is the budget method and not the Actuaries Method. It cannot therefore be said that the situation in question cannot arise now, since, according to the budget method, the NBCR is still less than NBER.

(iii) Again, if really, the L.I.C. has slipped from a position (where the NBCR was less than the NBER) into the position of 'week' Indian Insurance Companies of the 1920's, it means that a sorry state of affairs has been reached. The further assumption that this position will continue hereafter uncharged or without much improvement means a tacit admission that no economy is possible or that any attempt at reducing costs is sure to fail. Such an assumption implies a pessimistic and almost fatalistic approach to the question of economy in administration and management. It cannot, therefore, be accepted or acted upon in view of the measures of economy (in both first year-renewal expenses) that have been recommended by our Committee in the other parts of this report. With such measures of economy in operation, at least in order to know whether the NBCR is, as a result of these measures, decreasing and if so, by how much, it will be necessary to calculate the NBCR. If, thus, the cost ratios are to be calculated in any case, the RER becomes a redundant measure.

1.10.2. Whatever be the view about the present position of the NBCR, for the reasons that we have already outlined, we feel that the cost ratios are a better substitute for the RER.

1.10.3. However, one of the most important reasons for discontinuing the RER as a standard for measuring expenses is that even for weak companies, whose position the L.I.C. is supposed to have reached now, it is neither an indispensable nor an effective instrument for achieving the purpose for which it was originally recommended in 1928. This purpose was to provide an instrument for judging the adequacy, or for determining the quantum, of the provision for future expenses to be made in a valuation of such companies. The essential advantage of RER is that it provides a rough and ready method for making the existing business bear the new business strain in respect of future new business, but even here, it does not provide an accurate measure of this strain. Such an accurate measurement will take the actual new business cost ratio into account instead of assuming an arbitrary percentage like 90 percent for the first year expense allowance. It will also periodically estimate, from the latest experience available, the proportion of the first year premium required to meet the first year claims, instead of taking it at some fixed percentage as 10 per cent. Further, it will also see what proporation of the first year premiums is required for setting up a reserve equal to the liability at the end of a year under the new business of the year, as estimated by the valuation method currently in use. The execess, if any, of these three percentages over 100 multiplied by the ratio of the first year premium to the renewal premium seems broadly to provide a better standard of estimating the provision for the new business strain for which a provision is required to be made in the valuation. The valuing actuary will then have to provide for not only the future expenses

relating to the existing business as measured by the renewal cost ratio, but also for the strain, if any, under the future new business. The present renewal expense ratio not only takes the first two of the above three proportions at some arbitrary figures, but altogether ignores the third proportion, unless, of course, it is maintained that 10 per cent stands not only for the second proportion but for the second and the third together. In any case, it is always better to base the proportions on actual experience, from time to time, instead of taking them at fixed figures for all time, as the RER seems to do. Besides by combining the renewal cost with the new business strain, the RER allows new business surplus to lower the renewal cost. This happens in the case of Companies having NBCR less than NBER. What is, therefore, necessary is separate and accurate estimates of each of the renewal cost and new business strain. Thus even from this point of view, this ratio is now neither essential nor sufficiently accurate for achieving its historical purpose.

1.10.4. Again whether the valuation makes adequate provision for expenses is a question that often requires the examination of the valuation basis as a *whole* and not merely of the expense provision in it. The particulars to be given in the valuation returns should therefore enable such an overall examination to be made. At present the means to do so, so far as mortality of the lives assured is concerned, are lacking. We are, therefore, of the opinion that for adequately fulfilling the purposes of the present Rule 25(b) it is necessary to provide for some estimate to be given of the mortality experience too, in addition to estimates of the renewal cost and new business strain.

1.10.5. We may also point out that our country is the only country in which the RER of the kind contemplated by Rule 25(b) has been prescribed as an obligatory part of the valuation returns and has acquired the sanctity of a measure of efficiency. Our enquiries as well as the evidence that was tendered before our Committee have led us to the conclusion that there is no other country where even a similar ratio has been prescribed as a statutory measure of expenses.

Conclusions :

1.11.1. Our examination of the merits and demerits of the various indices of expenses has led us to the conclusion that a proper measure of expenses for the L.I.C. is first year (New Business) and the renewal cost ratio arrived at by as scientific a method of analysis as possible.

1.11.2. As regards the overall expense ratio, it has no statutory status. However, it will always continue as a measure of expenses on account of its universal appeal and its great simplicity; but every attempt should be made to educate the public about its real significance by interpreting it in the light of the basic cost ratios and the extraneous factors involved in it.

1.11.3. We have come to the conclusion that the RER cannot be accepted as a proper standard or index of expenses for the following reasons :

(i) The RER does not correctly indicate the level of the cost of renewal administration;

(ii) The variations in the RER may be misleading, being not necessarily or wholly due to similar variations in the basic cost ratios; consequently it is not a valid standard for comparison;

(iii) The RER is likely to lead to subordination of considerations of economy in planning for and securing new business, when the NBCR is consistently less than NBER over a period of time. This subordination may ultimately lead to a rise in the expense level and therefore to a rise in the RER itself;

(iv) It is more difficult for insurers transacting quality business to achieve the same or lower RER than for other insurers; consequently the RER tends to make the insurer lukewarm towards the growth of renewal premium;

(v) Under certain circumstances, the RER gives values that can only be described as fantastic. It may even be negative, implying that the management of renewal business not merely does not require any expenditure, but produces an income.

(vi) The RER does not give a correct standard for the provision for future expenses to be made in the valuation.

Recommendation:

We therefore recommend that the RER may be divested of the statutory status that it enjoys today. The present rule 25(*b*), *which gives this status to the RER, may be amended, and instead of the RER the following particulars may be required to be given by the valuing actuary* :

"25(*b*) (*i*) *A statement giving a measure of the strain, if any, arising out of the new business as percentage of the corresponding first year premium, explaining in detail how this is calculated, and showing what provisions, if necessary, is made in the valuation in respect of the similar strain arising in future in respect of the future new business.*

(*ii*) *A statement comparing the mortality experience of the last intervaluation period with that expected on the basis of the mortality table used in the valuation.* (*The method used in compiling the statement should be explained.*)

(*iii*) *An analysis of the consolidated expenses for the whole of the last intervaluation period giving the new business and the renewal cost ratios calculated in accordance with the method recommended in Chapter IV.*"

CHAPTER II

TREND OF L.I.C'S EXPENSES

2.1.1. A look at the following figures of the renewal expense ratios from 1963-64 to 1967-68 (the latest accounting year of the L.I.C.) is enough to show that the renewal expense ratio of the Corporation has lately shown an unmistakable trend of increase from year to year and has finally exceeded the statutory ceiling of 15 per cent in 1966-67 and 1967-68. The decrease in 1967-68 is insignificantly small to make any difference to this conclusion.

Year	Renewal Expense Ratio
1963-64	12·46%
1964-65	14·09%
1965-66	14·69%
1966-67	15·91%
1967-68	15·90%

2.1.2. However, our own examination of the effectiveness of the renewal expense ratio as a standard for measuring the level of expenses of an undertaking like the L.I.C. has led us to the conclusion that the ratio is a defective and unscientific standard. We have also come to the conclusion that the two cost ratios, new business cost ratio (NBCR) and renewal cost ratio (RCR) together provide a much more reliable standard of measurement. We, therefore, felt that we should examine the trend of expenses of the Corporation with the help of these two cost ratios as well. This examination, as the succeeding paragraphs will show, has revealed the same trend of increase in the level of expenses that the renewal expense ratio too has reflected.

2.1.3. It was clear to us that the reasons that have contributed to the emergence of this trend, could not be pinpointed without a careful examination of the yearly variations in the cost ratios. We have, therefore, devoted the earlier part of this chapter to an analysis of the yearly variations in the two cost ratios. In the later part we have also examined the yearly variations in the two expense ratios, overall and renewal. As the concluding paragraph of this chapter will show, our study has helped us to identify a numer of factors other than the two cost ratios that affect and determine the two expense ratios, and to show how the variations in the two expense ratios do not, at times, correctly indicate the trend of expenses.

Budget form

2.2.1. The L.I.C. came into existence in 1956. Its first budget was prepared only in 1959, and ever since then its annual budget have been showing estimates of expenditure on the basis of a form of analysis of expenses that the L.I.C. has adopted. (Appendix 3.) In the ensuing paragraphs, we shall refer to this form as the budget form. The actual expenses of the L.I.C. for each of the accounting periods since 1-1-1958 have also been analysed according to this form. An examination of the different cost ratios that the Corporation has calculated on the basis of its analysis of expenses will certainly help us to see whether the different cost ratios reflect the same trend of increase that is visible in the RER, in spite of the defects of the RER that have already been pointed out in the earlier chapter. But before we go on to such an examination, it will first be necessary to examine the form of analysis that the Corporation has adopted, and point out some of its main features.

2.2.2. One way of classifying expenses is to divide them into new business expenses, renewal expenses and common expenses. Another way is to distinguish between items that are self-regulating and items that are not self-regulating. Some of the items of expenditure *directly* depend upon the magnitude of business. These are called self-regulatory items. Other items are more or less fixed items, in the sense that they do not depend directly on the magnitude or volume of business, but are planned on a scale considered sufficient for an *expected* magnitude of business. It is on the basis of a combination of these two classifications that the L.I.C. has modelled its budget form. Thus the budget form classifies items of expenditure into four groups—Group A consisting of self-regulatory items pertaining to new business, Group B of other items pertaining to new business, Group C of self-regulatory items pertaining to renewal business, and Group D of items of common expenses pertaining both to new business and renewal business. Group D mostly consists of fixed item, except for a few items like Receipt Stamps, Bank charges etc. which are self-regulatory common items. In effect, items under Group D are further divided into new business expenses and renewal expenses in the proportion that the first year premium bears to the renewal premium. The part of Group D thus allocated to new business is, in effect, added to Groups A and B, and the ratio of the total of these to the first year premium has been described as the *new business cost ratio*. Similarly, the part of Group D expenses allocated to renewal business is, in effect, added to Group C, and the ratio of the total to the renewal premium is called the *renewal cost ratio*.

2.2.3. It can certainly be said that there are theoretical imperfections or deficiencies in the manner of allocation of Group D expenses between new business and renewal business. But we have no doubt that if the Corporation had not devised this form at a very early stage and established the practice of calculating these cost ratios on the basis of an analysis of each year's expenses in this form, it might have been far more difficult for anyone including the Corporation itself or our Committee to draw any reliable or meaningful conclusions about the level of the L.I.C's expenses.

2.2.4. It has been argued that the budget form does not bring out the *true* cost ratio, since the splitting of the common items of expenses, Group D, between new business expenses and renewal expenses in the

proportion of the first year premium and renewal premium is not unexceptionable. It is certainly true that *each* common item cannot be correctly split in this proportion. In the case of some items, the proportion of the numbers of new and old policies is more appropriate, while in the case of some others (e.g. salaries etc. payable to administrative staff in the new business and development departments, which almost exclusively do new business work) a complete transfer from Group D (common item) to Group B (fixed new business expenses) may appear more logical. There is no doubt, therefore, that the budget form can be improved. Even so, in spite of its imperfections, we have no doubt that the information that the form provides does serve some of the essential purposes of an analysis.

NBCR & RCR

2.3.1. The new business cost ratio and the renewal cost ratio as calculated by the L.I.C. in the budget form of analysis are given below for each of the accounting periods since 1-1-1958. (Please see Appendix 3 for detailed cost ratios).

TABLE 2·1

Accounting period.	New Business Cost Ratio	Renewal Cost Ratio
	%	%
1958	71·64	19·60
1959	68·12	18·50
1960	67·60	18·65
1961	66·26	18·39
1962-63 (15 months)	68·05	19·67
1963-64	66·10	18·28
1964-65	69·16	18·58
1965-66	69·96	18·85
1966-67	72·13	19·36
1967-68	71·25	19·45

It can be seen that the average new business cost ratio and the renewal cost ratio for an accounting period in these years are 69.03 and 18.93 respectively. For the entire period from 1-1-1958 to 31-3-1968 NBCR has varied between 66.10 per cent and 72.13 per cent, and the RCR between 18·28 per cent and 19.67 per cent. The range of variation in either case is about 8 to 9 per cent of the lower limit of the range. These figures do not throw any light on the reasons for the variations in the cost ratios. Only an examination of the itemwise variations in the cost ratios from year to year can help us to identify these reasons.

Why recalculate Ratios

2.3.2. As has been explained in the last chapter, the two cost ratios are the main constituents of the overall expense ratio and the renewal expense ratio, and one should, therefore, expect that the variations in these two experse ratios can be explained in terms of the variations in the cost ratios.

2.3.3. There is however, one difficulty in following such a procedure. The budget form of the L.I.C. does not take into acount single premiums and consideration for annuities in calculating the cost ratios, whereas in calculating the overall and the renewal expense ratios these premiums and the consideration for annuities are taken into account. In order that the two expense ratios may be interpreted in terms of the two cost ratios on the basis of the relationship between them, it is necessary to ensure that all the four ratios correspond to one another. For this purpose the two cost ratios have to be recalculated from the figures in the budget form by taking in the denominator, not only the first year premium under policies having a premium paying period of more than one year, but also the single premiums and consideration for annuities. These recalculated cost ratios are given in Table 2·2 in paragraph 2·4. It may be added that the main reasons for the variations in the Corporation's cost ratios are practically the same as those for the variations in the recalculated cost ratios. It does not, therefore, matter if the itemwise variations in the recalculated cost ratios alone are examined.

Special types of policies

2.3.4. We do not suggest that the recalculated cost ratios are more accurate than the Corporation's cost ratios. The recalculation has been done only for the specific purpose of ensuring that the cost ratios are arrived at on the same basis as the overall and the renewal expense ratios. It is known that for single premium policies and also for some other types of policies, expenses are incurred at a much lower rate than under other policies, which ordinarily form the bulk of the business. It is not, therefore, enough merely to include the premiums under these special types of policies in the denominators of the cost ratios, as the recalculated cost ratios do, but it is also necessary to make due allowance for the lower rate of expense for such policies. The proper procedure to allow for single premiums and all other similar types of premiums, such as premiums under group insurance, annuities etc., in respect of which there is reason to believe that a lower rate of expense is incurred, would therefore appear to be either to weight these types of premium appropriately in devising the denominators for calculating the cost ratios, or to deduct expenses at a certain specific rate in respect of such premiums from total expenses and then to omit such premiums altogether, and work on the basis of the remaining expenses and the remaining premiums. Neither the recalculated cost ratios nor the cost ratios in the budget form follow any such procedure. In spite of this, however, the discussion in the following paragraphs is based on the recalculated cost ratio. It is not the purpose of this discussion to lay down an appropriate procedure for analysing the expenses, but merely to explain the variations from year to year in such measures of expenses as the L.I.C. has calculated. So far as the cost ratios are concerned, as has been already stated, there would be no material difference in the conclusions whether the variations in the L.I.C's (Budget) cost ratios are examined or those in the recalculated cost ratios are examined. But we feel that the variations in the overall and the renewal expense ratios can be adequately and readily explained only on the basis of the recalculated cost ratios. This is why we have based our observations in the succeeding paragraphs on the recalculated cost ratios.

Recalculated Cost Ratios

2.4. The recalculated cost ratios are given in columns 2 and 3 of the Table below. Since these (and not the L.I.C's cost ratios) form the basis of the paragraphs that follow, we shall refer to them in the ensuing discussion as the cost ratio.

TABLE 2·2

Accounting period	% Cost Ratios		% increase in		% of		% increase in		
	New Business	Renewal	First year Prem. including single Prem.	Total Prem.	PSE@ to total first year Prem.	ASE@ to total Prem.	New Business	PSE@	ASE
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1958 . . .	68·99	19·41	21·64	11·26	17·08	11·83	22	..	..
1959 . . .	65·77	18·39	26·55	15·35	14·89	10·92	24	10·32	6·46
1960 . . .	63·80	18·44	16·62	14·87	15·20	10·88	16	19·09	14·48
1961 . . .	63·40	18·24	13·14	15·77	15·46	10·47	22	15·06	11·36
1962-63 (15 months) .	64·75	18·73	5·61	12·99	17·05	11·01	—2	16·46	18·86
1963-64 . . .	62·82	18·11	19·40	14·99	16·91	10·45	18	18·42	9·12
1964-65 .	65·93	18·43	1·53	10·58	18·74	11·01	—3	12·50	16·50
1965-66 . . .	66·30	18·69	7·42	10·79	19·42	11·22	14	11·33	13·00
1966-67 .	67·43	19·34	2·60	9·58	20·21	11·80	—4	6·78	15·06
1967-68 . . .	66·71	19·34	7·03	8·14	19·81	11·79	10	4·87	8·10

* P.S.E.—Procuration Staff Emoluments.
@A.S.E.—Administrative Staff Emoluments.

FOOT NOTE :—We should also point out that the following adjustments have been made for the purpose of the above table :

(i) To obtain comparable figures on a yearly basis, the figures for 1962-63 have been reduced in the proportion of 4:5, so far as first year premium, new business and items of expenditure (except renewal commission and compensation to special and chief agents) are concerned: and, as regards renewal premium, it has been estimated by interpolation between the figures for renewal premium for 1960, 1961, 1963-64 and 1964-65. In the case of renewal commission etc. the figure has been so taken that it bears the same ratio to the estimated renewal premium as the actual renewal commission etc. bears to the actual renewal premium. The cost ratios and the various other proportions in the above table have been worked out on the basis of these modified figures.

(ii) The first year premium income for 1957 required for calculating the first figure to column (4) was estimated so as to bear the same proportion to the first year premium for the whole 16 months' period ending on 31-12-1957 as the new business for the last 12 months of this period bears to the new business for the whole 16

months' period. The renewal premium for 1957 was estimated from the figures of the renewal premium for 1955 and 1958 by interpolation, using however, the figure for the total renewal premium for 1956 and 1957.

(iii) Bonus to Development Officers is shown by the L.I.C. in Group B, separate from bonus to other staff, which is an item in Group D, only for the years 1966-67 and 1967-68. In order to make the figures for the various years comparable, the bonus to Development Officers for 1966-67 and 1967-68 has been transferred from Group B to Group D for purposes of Table 2·2.

Analysis of Table 2.2.—Variation in the Cost Ratios.

2.5.1. The new business cost ratios (col. 2) have varied between fairly narrow limits for different accounting periods (1-1-58 to 31-3-68), the lowest such ratio for any accounting period being 62.62 per cent and the highest 67.99 per cent. The range of variation is 5.17 and the average new business cost ratio is 65.49 per cent. Similarly the renewal cost ratio [Col. (3)] has varied between 18.11 per cent and 19.41 per cent, the range of variation and the average being 1.30 and 18.71 respectively. Expressed as a percentage of the average, the range of variation is 7.89 per cent for the new business cost ratio, and 6.95 per cent for the renewal cost ratio. Considering that the whole period covered is a little longer than 10 years, the range of fluctuations in the cost ratios may be considered as small enough, and, judged by this test alone, it may be said that there is a semblance of fair degree of stability in the cost ratios. It is, however, necessary to examine the yearly variations in the cost ratios, in order to see whether there is any definite trend, or the variations are merely random variations. If a trend is discernible and, at least lately, if it is in the direction of increasing cost ratios, then a situation may soon develop in which variations in cost ratios which have so far been within narrow limits may overstep these limits to the high side. It will be seen from columns (2) and (3) of Table 2.2, that the cost ratios have neither been uniformly increasing nor uniformly decreasing throughout the period. The whole period since the inception of the Corporation may be divided into various periods such as from 1-9-1956 to 31-12-1957, 1-1-1958 to 31-12-1961, 1-1-1962 to 31-3-1964 and 1-4-1964 to 31-3-1968 for observing the trend of the cost ratios. For the first period ending on 31-12-1957, no cost ratios are available. Throughout the second period (from 1-1-1958 to 31-12-1961) the cost ratios, with the exception of the renewal cost ratio for 1960, are decreasing. During the 15 month period ending on 31-3-1963, the ratios have appreciably increased, and again have similarly decreased during the next accounting period. These two accounting periods have, therefore, been classified separately. From 1-4-1964 to 31-3-1967, however, there has been a continuous and disturbing increase in both the ratios.

2.5.2. In the year 1967-68, the new business cost ratio has decreased for the first time since 1963-64; and the renewal cost ratio has remained at the same level. It may, therefore, be said that the continuous increase in the cost ratios for the three years preceding 31-3-1967 has been arrested during 1967-68, a feature that can be observed in the case of the renewal expense expense ratio as well. It may also be pointed out here that the cost ratios for 1967-68 are still higher than those of any year from 1959 onwards with the exception of those for 1966-67. We have been told that certain allowances paid to Class I Officers have been revised upwards during 1968-69 with effect from 1st April 1967 and payments have been made during 1968-69 on account of the year 1967-68. These payments could not be included in the accounts for the year 1967-68. Had they

been so included, the renewal cost ratio for 1967-68 would have been slightly higher than 19.34 per cent. It appears to us, therefore, that there is no ground to assume that the high level of expenses reached during the period from 1st April 1964 to 31st March 1967 has shown any downward trend during 1967-68. Under the circumstances the whole period from 1st April 1964 to 31st March 1968 has to be considered as a period of adverse experience as regards expenses, as against the period from 1st January 1959 to 31st December 1961 which can be described as a period of favourable experience.

2.5.3. It can be seen that a high level of expenses has been in evidence in recent years, not only in the renewal expense ratio, but also in the cost ratios. It can also be seen that though the renewal expense ratio is not a correct index of expenses, the high level of expenses indicated by it is confirmed by the cost ratios which constitute a sufficiently correct index.

Additional information

2.5.4. It is necessary to examine the variations in the cost ratios a little more closely with a view to ascertaining the causes of the recent increasing trend that one sees in them. For this purpose, the following additional information is given in Table 2.2.

(i) The percentage increase in the first year premium (including single premium) over the corresponding figure for the preceding accounting period is shown in Col. (4); the similar percentage increase in the total premium is given in column 5

(ii) The total emoluments payable to the employees of the Corporation constitute a major part of the total expenses; "Commissions", which is a self-regulatory item, being next in importance. In the budget form, the emoluments payable to the Development Officers (including the conveyance allowance and travelling expenses of some others also presumably connected with the procuration of new business) are included in Group B, which consists mostly of *fixed* items of new business expenditure. The percentage to the first year premium of these emoluments (which we may call for brevity Procuration Staff Emoluments (P.S.E.), is shown in column (6) of the table; and the percentage to the total premium of the Administrative Staff Emoluments (A.S.E.) is shown in column (7). Apart from "commission" the ratios in columns (6) and (7) are the main constituents of the new business cost ratio (col. 2); and the ratio in column (7) is the main constituent of the renewal cost ratio (col. 3).

(iii) The first year premium income in any year is partly under the previous year's new business and partly under the current year's new business. This is one of the reasons why the variations in the first year premium income do not completely reflect the corresponding variations in the new business. For instance, even when the new business has decreased as in 1962-63, 1964-65 and 1966-67, the first year premium has still increased (Col. 4) though to a substantially smaller extent. Further, it is the variations in the new business which, to some extent, regulate the permanent or multiple increments admissible to Development Officers. Hence the percentage increase in new business is given in Col. (8) of the Table

(iv) Columns (9) and (10) show the percentage increase in P.S.E. and A.S.E. respectively. A comparison of the percentage increase in P.S.E. (Col. 9) and in A.S.E. (Col. 10) with those in the first year premium (Col. 4) and the total premium (Col. 5) enables us to explain the variations in the P.S.E. and A.S.E. cost ratios [cols. (6) and (7)]. Further since increase in P.S.E: is partly a result of the permanent increments admissible to Development Officers, percentage increase in new business (Col. 8) explains to some extent the percentage increase in P.S.E. (Col. 9).

Significant characteristics.

2.5.5. It might be useful to draw attention to certain significant characteristics that the Table reveals. From Col. (8), it can be seen that the percentage increase in new business is alternately rising and falling. Not only that, but after 1961 it is alternately negative and positive; i.e., since 1962-63 the new business figure itself is alternately increasing and decreasing.

2.5.6. From column (4) it can be seen that a similar tendency is exhibited by the percentage increase in the first year premium income, which is also alternately rising and falling, except for the year 1961. It appears that these characteristics of alternate rise and fall have something to do with the rules for determining the permanent increments allowable to Development Officers, since these rules regulate the number of admissible increments on the basis of the increase in new business over that of the preceding year and not over the level of production reached in the past. Further, both the permanent and temporary increments schemes decrease the cost ratio only in the year in which they do act as incentives. In each year thereafter, or in the next one or two years, they increase the cost ratio unless the performance in the first year is continually and adequately improved upon. This is due to the fact that the increments arising out of the performance in any year are payable only from the next year. These characteristics of the 'increments schemes' appear to have been reflected in the alternate rise and fall in the figures in column (4) (except for the year 1961) and column (8), and in the low cost ratio in column (6) against the year 1959 being followed by continually increasing cost ratios thereafter, except for the years 1963-64 and 1967-68. Of course the almost continuous increase in the figures in the P.S.E. cost ratio (column 6) after 1959 is due to many causes and all that is suggested here is that the two increments schemes are also among them.

2.5.7. A comparison of the figures in columns (4) and (9) shows that, except for the years 1959, 1963-64 and 1967-68, the figure in column (9) always exceeds that in column (4) *i.e.*, the percentage increase in Procuration Staff Emoluments (P.S.E.) is relatively larger than that in the first year premiums, which is the reason for the continuous increase in the figures in column (6) after the year 1959, with the exception of the years 1963-64 and 1967-68.

2.5.8. The increase in the Administrative Staff Emoluments (A.S.E.) is relatively smaller than the increase in the total premium in the years 1959, 1960, 1961 and 1963-64 as can be seen by a comparison of the figures in columns (5) and (10). Thus the four lowest A.S.E. cost ratios and also four of the five lowest renewal cost ratios have emerged

in these years. [See columns (3) and (7)]. In the year 1967-68 also the same feature is present, but the per cent increase in the total premium is only slightly larger than the per cent increase in A.S.E.; and thus the difference in the A.S.E. cost ratios for 1966-67 and 1967-68 is insignificant.

Yearly variations:

2.5.9. Since 1958 is the first year for which the cost ratios are available, the variations in them can be examined only from 1959 onwards. To facilitate the examination of the variations, the increase or decrease in the various basic itemwise (percentage) cost ratios over the preceding accounting period are shown in the following table (Table 2.3).

TABLE 2·3

Increase or decrease in various Basic (Percentage) Cost Ratios over the preceding accounting Period*

Accounting Period	NBCR	RCR	PSE	ASE	Total of ASE. & PSE	Medical fees	First year Commission	Advertisement	Policy Stamp	Motor Car	Other Group D. Expenses	Renewal Commission	Remarks
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1959	—2·22	—1·02	—2·19	—0·91	—3·10	+0·27	+0·41	+0·45	—0·03	+0·04	—0·26	+0·15	..
1960	—1·97	+0·05	+0·31	—0·04	+0·27	—0·64	—1·07	—0·56	+0·03	—0·01	+0·01	+0·088	Non-Medical was introduced in 1960
1961	—0·40	—0·20	+0·26	—0·41	—0·15	—1·42	+0·72	+0·26	+0·11	+0·06	+0·02	+0·19	Full effect of Non-Medical Schemes and Extension of these Schemes.
1962-63**	+1·35	+0·49	+1·59	+0·54	+2·13	—0·82	—0·42	+0·22	—0·03	+0·04	+0·23	—0·28	Full effect of extended non-Medical Scheme.
1963-64	—1·93	—0·62	—0·14	—0·56	—0·70	—0·18	—0·81	...	—0·07	+0·01	—0·18	+0·12	...
1964-65	+3·11	+0·32	+1·83	+0·56	+2·39	—0·01	+1·00	—0·21	—0·02	+0·08	—0·12	—0·12	...
1965-66	+0·37	+0·26	+0·68	+0·21	+0·89	—0·01	—0·50	—0·17	+0·04	+0·07	+0·05	...	...
1966-67	+1·13	+0·65	+0·79	+0·58	+1·37	—0·38	+0·20	+0·02	—0·06	+0·03	—0·01	+0·08	Further extension of the non-medical limit.
1967-68	—0·72	...	—0·40	—0·01	—0·41	—0·11	—0·14	—0·18	...	—0·09	—0·03	—0·02	Full effect of the further extension.

*These cost ratios are the revised cost ratios described in para 2.3.3.
**15 months.

Increase (or decrease) in the new business cost ratio and renewal cost ratio is shown in the 2nd and 3rd columns (Table 2.3). In columns 4 and 5, the increase or decrease in the P.S.E. and A.S.E. cost ratios is given. The total of these two columns is shown in column 6. The other columns show the increase or decrease in the cost ratios under other items like medical fees, first year and renewal commission (including compensation to special and chief agents), advertisement, policy stamps, motor car and other Group 'D' expenses.

2.5.10. Since the administrative staff emoluments constitute a major portion of the renewal cost, the changes in the renewal cost ratio would be largely accounted for by changes in A.S.E. The balance of any variation is accounted for by changes under other Group 'D' expenditure, and the renewal commission etc. shown in columns 12 and 13 respectively, that is, column 3 is the total of columns 5, 12 and 13.

2.5.11. Similarly, since both P.S.E. and A.S.E. together form the bulk of the new business cost ratio, the variation in the new business cost ratio would be largely due to the variation in the total of P.S.E. and A.S.E. cost ratios shown in column 6. The balance of the variation in the new business cost ratio is explained by the variation under other expense items, that is, under medical fees, first year commission, advertisement, policy stamps, motor cars and other Group 'D' items shown against the corresponding years in columns 7, 8, 9, 10, 11 and 12 respectively. Thus column 2 is the total of the figures in columns 6 to 12.

2.5.12. It can be seen that the biggest decline in the cost ratios occurs in 1959, (NBCR=2.22 RCR=1.02). It is also the year of the largest percentage increase in the first year premium (26.55 per cent) and new business (24 per cent), and of the second largest proportionate increase in the total premium (15.35 per cent). It is also the year of the smallest percentage increase in A.S.E. (6.46 per cent) and of the third smallest percentage increase in P.S.E. (10.32 per cent). However, the first year premium (F.Y.P.) was, relatively to the P.S.E., much larger in 1959 than in 1966-67 or 1967-68, the years in which the two lowest proportionate increases in the P.S.E. occurred, as can be seen from the following figures:

F. Y. P.	Rs. 18,44 lakhs (1959)	
	Rs. 34,34 lakhs (1966-67)	Rs. 36,75 lakhs (1967-68)
P.S.E.	Rs. 2,75 lakhs (1959)	
	Rs. 6,94 lakhs (1966-67)	Rs. 7,28 lakhs (1967-68)

Hence the P.S.E. cost ratio was the smallest in 1959 whereas it was the highest in 1966-67 and the second highest in 1967-68. The year 1959 was also one of the four years of the four lowest A.S.E. cost ratios as has already been remarked. Actually, the decline in P.S.E. and A.S.E. cost ratios in 1959 is as high as 3.10 as against the decline of 2.22 in the

new business cost ratio. This shows that, but for the increase in the cost ratios under some other items such as commission, advertisement and medical fees, the new business cost ratio would have further decreased in 1959. Reference may be made to Appendix 4 in which the itemwise cost ratios corresponding to the new business and renewal cost ratios in Table 2·2 are given for each accounting period.

2.5.13. In the year 1960 in spite of the total net increase of 0.27 in P.S.E. (+·31) and A.S.E. (—.04) csot ratios the new business cost ratio still decreased further from 65.77 to 63.80. This was largely due to the significant decreases (0.64) in Medical Fees cost ratio, (0.56) in the advertisement cost ratio, and (1.07) under Commission. The non-medical scheme (General) was introduced for the first time in 1960, and this naturally reduced the Medical Fees cost ratio. The item of advertisement appears to be one of the controllable items of expenditure since, as against the sanctioned amount of Rs. 17.81 lakhs under this item for the year 1960, the amount actually spent was only Rs. 13.75 lakhs. There have been similar instances of the sanctioned expenses under this head being reduced even at a late stage in the year.

2.5.14. The year 1961 registered a still further decline of 0.40 in the new business cost ratio which again was due to the net decline of 0.15 in P.S.E. (+ .26) and A.S.E. (—.41) cost ratios and to a reduction in the Medical Fees cost ratio of 1·42. The full effect of the non-medical scheme (General) was seen in 1961 for the first time, since the scheme was introduced in May 1960 in selected rural areas, and made applicable to all areas only in December 1960. Again from August 1961 the limits for non-medical business were further increased.

2.5.15. The continuous fall in the new business cost ratio during the period 1959—61 is thus due to a substantial and favourable impact on it of the phenomenal increase in the new business in 1959, the introduction of the non-medical scheme (General), the increase in the limits for non-medical business and the growth in the total annual premium that kept well ahead of the rise in the Administrative Staff Emoluments.

2.5.16. During the year 1962-63, there was a substantial increase under each of P.S.E. and A.S.E. cost ratios, the total increase being 2.13· But for a further fall in the Medical Fees cost ratio of .82 and of .42 in the cost ratio under the item of commission, the rise in the new business cost ratio would have been still higher than what it actually was, viz. 1.35.

2.5.17. During the year 1963-64, there has been a decline of .70 in the P.S.E. (—.14) and A.S.E. (—.56) cost ratios, of .18 in the Medical Fees cost ratio and of .81 under the item of commission. These decreases together with other minor ones under other items of expenditure brought down the new business cost ratio to its lowest level so far, viz., 62.82.

2.5.18. From 1964-65, however, the new business cost ratios have substantially increased up to 31-3-1967 mainly due to the rises under each of P.S.E. and A.S.E. cost ratios aggregating to 2.39, 0.89 and 1.37 in 1964-65, 1965-66 and 1966-67 respectively· During these three years under the item of First Year Commission too, there has been a net rise

of .70 in the cost ratio. Though commission is regarded as a self-regulatory item, yet, expressed as a percentage of the first year premium, this cost ratio is quite likely to vary, as the distribution of new business over various plans (carrying different rates of first year commission), or even for any one plan over different terms, varies. In fact, over the period from 1-1-1958 to 31-3-1968 this cost ratio has varied between 26.69 and 28.27. Though there was a total increase of 4.65 in the cost ratio under P.S.E. and A.S.E., of .18 under Motor Cars, and a net increase of .70 under commission, resulting in a total increase of 5.53 from 1963-64 to 1966-67, the new business cost ratio increased only by 4.61. This was due to certain compensating factors, such as the reduction in the Medical Fees cost ratio of .40 and a continuous reduction (.40) under Advertisements in the three years. In the year 1967-68, the NBCR has shown a significant decrease of 0.72, which is made up of decreases of 0.40 in P.S.E. cost ratio, 0.14 in First Year Commission and 0.18 in Advertisements, (changes in all other items just balancing each other).

2.5.19. Apart from the A.S.E. cost ratio, the only other major constituent of the renewal cost ratio is renewal commission, the cost ratio for which has varied within a very small range of .42 between 4.27 and 4.69. All other minor items in the renewal cost ratio add up to a figure which has varied from 3.01 to 3.31 within a small enough range. Thus with the exception of the year 1960, the renewal cost ratio has risen or fallen up to 31-3-1967 according as the A.S.E. cost ratio has risen or fallen to a greater or smaller extent depending upon the variations under the other items. In 1960 the fall in A.S.E. cost ratio was very small, and there was a slightly larger rise in the renewal commission cost ratio. Thus the renewal cost ratio increased in that year. In 1967-68, though the A.S.E. cost ratio decreased by 0.01, the RCR remained unchanged. This was due to a net compensating increase of 0.01 under other items.

Contrast between 1959—61 *and* 1964—68:

2.5.20. One of the characteristics which distinguish the period (1964—68) of adverse experience from the earlier favourable period (1959—61) is that, while in the earlier period the total premium increased from year to year more than adequately to contain the rise in the A.S.E., the position was quite the reverse during 1964—67. In 1967-68 the total premium increased practically to the same relative extent as the A.S.E. As against this, in both the periods the procuration staff emoluments increased more than the first year premium, except in the years 1959 and 1967-68, but there was a relieving feature during each of the years 1960 and 1961 in that the medical fees cost ratio decreased more than enough to counter-balance the increase in the P.S.E. cost ratio. In the years 1966-67 and 1967-68 too, there was a reduction in medical fees cost ratio, but it was not enough to counterbalance the increase in the P.S.E. cost ratio in 1966-67, partly because the increased limits for non-medical business operated for half a year only. Apart from these main characteristics, there were significant changes under some of the minor items. Motor car expenses have almost continually risen as compared to the total first year premium, the relative percentage rising from 0.36 in 1958 to 0.77 in

1967-68. Similarly under minor common items of expenditure, Tabulating Machines—Rental and Maintenance charges and the building Department's revenue expenditure have lately shown a tendency to increase as compared to the total premium.

Other Analyses : Internal Audit Analysis :

2.6.1. Besides the analysis in the budget form, two more types of analysis have been made available to the Committee, one adopted by the Internal Audit Department and the other made by "some actuaries in the Actuarial Department".

2.6.2. The analysis made by the Internal Audit Department is available only for certain years (from 1962-63 onwards) and not for all the years for which the budget form of analysis is available. Moreover, it is understood that this analysis made by the Internal Audit Department is only of the expenses at the Divisional level, and does not allocate the expenses at the Zonal headquarters or the Central Office among Divisions. It does not, therefore, cover the entire expenses of the Corporation. However, a similar analysis according to the budget method covering only Divisional expenses is also available (Appendix 2). Thus a comparison can be made between the results of these two methods. The Internal Audit figures for Divisions so far as they are available are given in Appendix 5, in which the corresponding cost ratios according to the budget method have also been given for comparison. It will be seen that practically in every case the Internal Audit analysis gives a higher figure for the NBCR and a lower figure for the RCR as compared to the figures in the budget papers.

Actuaries' Analysis :

2.6.3. As for the analysis made by actuaries of the Actuarial Department, appropriately enough, it allocates the salary of the administrative staff doing purely new business work, such as that in the New Business and Development Departments, entirely to first year expenses. The salary of the employees of P.H.S. Department doing the work of premium deposits, deposit adjustment, etc., has been apportioned between First Year and Renewal in the proportion of First Year to Renewal Premium, while the balance of P.H.S. Department salaries has been included in Renewal. It may be argued that the former part of the P.H.S. salaries could be appropriately divided in the proportion of the numbers of deposits or policies. The salaries of the staff and officers in other departments doing both new business and renewal work have been divided in the proportion of the premiums. Here again the method adopted by the actuaries is open to the same objection as the budget form of analysis; viz., that the premiums are used as the unit of allocation even in cases where some other unit would have been a better guide. Besides these salaries, there are some other items too, which it may be argued, could better be apportioned in the proportion of the number of policies than in the proportion of the premiums, as has been done in the method followed by the Actuaries. The salaries of 34 Divisions (all Divisions except Bombay and Calcutta) including all Branches under them are apportioned on the basis of a sample of five Divisions. Though the size of the sample is adequate, its representative character needs further examination.

Again the Actuaries' analysis leaves out of account single premium and consideration for annuities. If these are taken into account, then the actuaries' method of apportionment would give the following cost ratios comparable to the cost ratios in Table 2.2. These latter cost ratios are also given below :

TABLE 2·4

Year	Actuaries' Analysis Cost Ratios NBCR	RCR	Revised Cost Ratios (Budget form) NBCR	RCR	NBER
1958	77·82	16·72	67·99	19·41	83·93
1959	73·58	16·21	65·77	18·39	85·50
1960	71·29	16·31	63·80	18·44	83·38
1961	71·12	16·12	63·40	18·24	84·58
1962-63	74·36	17·16	64·75	18·73	85·53
1963-64	71·14	15·90	62·82	18·11	84·19
1964-65	76·61	15·87	65·93	18·43	84·18
1965-66	78·20	15·94	66·30	18·69	83·74
1966-67	81·36	16·18	67·43	19·34	83·67
1967-68	81·16	16·32	66·71	19·34	83·25

The Table clearly shows that the high level of expenses that the Budget form cost ratios reflect in the years 1964—68 is confirmed by the Actuaries' analysis as well. The average NBCR and RCR according to the actuaries' method are 75.66 and 16.27 respectively. The NBCR has varied between 71.12 per cent and 81.36 per cent, the range of variation (10.24) being 14 per cent of the average. The RCR has varied between 15.87 per cent and 16.72 per cent, the range of variation (0.85) being 5 per cent of the average. It is significant to note that the range of variation of the NBCR calculated by the method that the actuaries have adopted is practically double the range for the NBCR based on the Budget form of analysis, while the range for the RCR is about two-thirds.

2.6.4. It would be seen that the NBCR in the Actuaries' analysis is not only higher than the corresponding NBCR in Table 2.2, but also approaching at a faster rate the ratio of the total first year expense allowance under Rule 25(b). This ratio has already been referred to as NBER in Chapter I, and its values for the various years concerned are given in the last column of Table 2.4 In spite of this faster rate of approach, however up to 1967-68 at least, the NBCR was less than the NBER.

Why different analyses:

2,6.5. We have already referred in Chapter I to the difficulties that are often experienced in evolving a common and scientific basis for the allocation of expenses between first year and renewal expenses that is universally acceptable. The possibility that different undertakings might desire to adopt different bases for this allocation is understandable. One can also understand different departments of the same undertaking making experimental studies on the basis of different systems of allocation. But if, at any one time, different departments of the Corporation adopt different bases of allocation for their analyses, the lack of uniformity may result in confusion and controversy. We are therefore glad that the Internal Audit Department of the Corporation too has now been asked to adopt the budget method of allocation.

Overall and Renewal Expense Ratios:

2.7.1. The only expense ratios which the Corporation has reviewed in its annual reports or its budget notes are the overall and the renewal expense ratios. The two cost ratios—which it has been calculating, viz., the new business cost ratio and the renewal cost ratio—are never referred to in its annual reports, and only occasionally have they been referred to even in the budget notes. The following table gives, among other things, the overall and the renewal expense ratios of the Corporation in columns (2) and (3) for each of the successive accounting periods since 1-9-1956.

TABLE 2·5

Accounting period	Overall Expense Ratio	Renewal Expense Ratio	Revised Cost Ratio		% of the first year premium to		NBER	Difference between the figures in columns	
			First Year	Renewal	Renewal Premium	Total Premium		(8) & (4)	(4) & (5)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	%	%	%	%	%	%	%		
1955	31·77	16·59(17·3)*	...	...	28·33	22·08	...	...	...
First 8 months of 1956	33·60	20·9	...	...	23·81	19·23	...	...	...
16 months ending on 31-12-57	27·19	15·89	...	...	19·23	16·13	...	...	...
1958	29·01	15·46	67·99	19·41	24·63	19·80	83·93	15·94	48·58
1959	28·68	12·92	65·77	18·39	27·74	21·72	85·50	19·73	47·38
1960	28·45	12·90	63·80	18·44	28·29	22·05	83·38	19·58	45·36
1961	27·97	12·42	63·40	18·24	27·47	21·55	84·58	21·18	45·16
1962-63	28·00	13·49	64·75	18·73	25·22	20·14	85·53	20·73	46·02
(15 months)	(29·31)@	(14·13)@							
1963-64	27·46	12·46	62·82	18·11	26·45	20·91	84·19	21·37	44·71
1964-65	27·55	14·09	65·93	18·43	23·77	19·20	84·18	18·25	47·50
1965-66	27·55	14·69	66·30	18·69	22·88	18·62	83·74	17·44	47·61
1966-67	27·72	15·91	67·43	19·34	21·11	17·44	83·67	16·24	48·09
1967-68	27·52	15·90	66·71	19·34	20·85	17·25	83·25	16·54	47·37

*For the year 1955, the figure 17·3 applies to Indian Insurers only ; the rest of the figures for this year apply to all insurers—Indian and Foreign, the latter only in regard to their Indian business.

@The bracketed figures 29·31 and 14·13 for the year 1962-63 are based on the actual renewal premium in the revenue account ; whereas all other figures for this year are based on the renewal premium modified as for Table 2·2.

2.7.2. The figures for the eight months ending on 31st August, 1956 are added here merely for the sake of completeness, but as has been observed by the Corporation itself, 'the percentage of expenses of management to premium income for the first eight months of any year will ordinarily be higher than the percentage of the whole year, since the average monthly premium receivable in the last 4 months of the year will always be much higher than the average monthly premiums for the first 8 months of the year, whereas the average monthly figure of expenses of management for the last 4 months of the year will approximately be the same as the average monthly figure of expenses during the first eight months of the year'. Therefore, in order to see what changes, if any, occurred in the expense ratios when the Corporation took over the private companies' life business, it is the position in 1955 of all private companies—including non-Indian insurers doing business in India—that should be compared with the expenses of the Corporation in its first accounting period. We see that the overall expense ratio has decreased from 31.77 per cent to 27.19 per cent and the renewal expense ratio from 16.59* to 15.89 per cent. There are, however, some other factors that require to be taken into consideration in this respect.

2.7.3. The ratio of the first year premium to the renewal premium shows a substantial decrease from 28.33 per cent in 1955 to 19.23 per cent in 1956-6, (Col. 6). Other things remaining the same, for instance, even with the same degree of economy of management, the substantial decrease in this ratio should by itself lead to a reduction in the overall expense ratio, because the first year premium being relatively less, the first year expenses (which are always heavier than the yearly renewal expenses) are also relatively less. Again for the very reason pointed out above in respect of the overall expense ratio for the first eight months of 1956, *viz.*, that the premium is relatively less, whereas the fixed expenses are normal as compared to a yearly period, it follows that in the 16 month period ending on 31st December, 1957, the premium is relatively higher whereas the fixed expenses are again normal as compared to a year. This also is partly the cause of the reduction in the overall and renewal expense ratios in 1956-57. In fact, it is estimated that, but for this favourable relationship between premium income and expenses, the overall and the renewal expense ratios would have been about 27.57 per cent and 16.12 per cent respectively for 1956-57. In view of these two extraneous causes, *viz.*, the favourable relationship and the steep reduction in the ratio of the first year premium to the renewal premium, probably not much significance can be attached to the decrease in the overall expense ratio from 31.77 per cent to 27.19 per cent. Further the report of the Corporation for the first accounting period mentions certain 'fixed' items, such as salaries of administrative staff, under which expenses have actually increased as compared to pre-nationalisation days. A large portion of the increased expenses under these items pertains to renewal business, and therefore, the renewal cost ratio might have increased after nationalisation. Yet, the renewal expense ratio decreased, though slightly. Further, the decrease in the ratio of the first year premium to the renewal premium has synchronised with this decrease in the renewal expense ratio. A probable

This is based on the figures given in the Indian Insurasce Year Book, 1956 and applies to all insurers in India (including Foreign Companies).

answer, therefore, appears to be that no substantial decrease in the level of the total expenses of Indian Life Insurance business resulted from its integration into a single unit, though it might have resulted in a decrease in the new business cost ratio and an increase in the renewal cost ratio.

2.7.4. The Corporation has offered the following comments on the renewal expense ratio for 1956-57:—

> "The renewal expense ratio of 15.89 per cent must be considered as high. With the introduction of rationalisation and improved administrative procedures coupled with the expansion of business a reduction in the expense ratio could be expected. The progress in this direction may, however, be retarded to some extent by the expenses involved in plans of development particularly in rural areas where the Corporation is intensifying its efforts to spread insurance. Costs in rural areas are high as, apart from expenses inevitable in breaking new grounds, the sum assured per policy in these areas will be significantly smaller than in urban areas."

2.7.5. A year later in 1958, the Corporation's comments on the expense ratios were as follows:—The increase in the overall expense ratio from 27.3 per cent in 1967 to more than 29 per cent in 1958 'is accounted for by the first year's commission and other initial expenses on the larger volume of new business completed during 1958. It is well known that the overall expense ratio which is highly sensitive to the proportion the new business bears to the existing business is not a proper index of economy. This is appropriately measured by the renewal expense ratio..........' which (for the year) is 15.46 per cent as compared to 15.89 per cent for 1956-57.

2.7.6. It is somewhat strange that the renewal expense ratio is described here as an appropriate index of economy, though it is well-known that like the overall expense ratio the renewal expense ratio is also highly sensitive to the proportion of the first year premium income to the renewal premium income.

2.7.7. As it is, the ratio of the first year premium to the renewal premium increased from 19.23 per cent during the period 1956-57 to 24.68 per cent in 1958. This is quite an appreciable increase, much more than in any of the subsequent years, and it could by itself have produced a reduction in RER. It is, therefore, difficult to draw any definite conclusion regarding the economy of management in 1958 merely on the strength of the decrease in the renewal expense ratio.

2.7.8. The Corporation has cited rural business opening of new offices and bonus payment to Class III staff as three of the reasons for the transgression of the statutory limit of the RER.

2.7.9. However, these three reasons advanced by the Corporation operated to some extent even during the preceding accounting period 1956-57. But in the case of the first two of them, the tempo must have increased in 1958, and as regards bonus, the cost was relatively higher than the

cost of the corresponding benefits in the earlier accounting period. In the absence of information regarding the basic cost ratios NBCR and RCR and in view of the simultaneous rise in the ratio of the first year premium to renewal premium, it is not possible to come to any definite conclusion on the reasons for the 'not unsatisfactory' decrease in the RER.

2.7.10. The two cost ratios are available from the year 1958. The variations in them are available from 1959. Therefore, from this year onwards, it becomes easier to interpret the variations in the overall expense ratio and the renewal expense ratio in terms of the variations in the two cost ratios. The relationships between the new business cost ratio (NBCR), renewal cost ratio (RCR), overall expense ratio (OER) and renewal expense ratio (RER) have already been stated in para 1·9.2. of the Chapter on 'Indices of Expenses'. These relationships are:

RER = RCR — (NBER — NBCR) × (the ratio of the first year premium to the renewal premium).

OER = RCR + (NBCR — RCR) × (the ratio of the first year premium to the total premium).

2.7.11. The additional information necessary to verify these relationships has been presented in Table 2.5. Thus columns (4) and (5) of the Table give the revised cost ratios. As has already been stated earlier, it is only to these revised cost ratios that the OER and RER correspond. Columns (6) and (7) give the two premium ratios involved in the above relationships. In the chapter on 'Indices of Expenses', NBER [the new business expense ratio prescribed under rule 25(b)] has been taken on an average to be 84 per cent. Though the variations from the average have been small enough in different years, yet to facilitate actual verification of the above relationships, the actual value of NBER is given in column (8) for each accounting period. From columns (4) and (5) the difference between the two cost ratios is calculated and given in column (10). It is this difference that is occurring in the relationship for OER. Similarly from columns (8) and (4), the difference, NBER—NBCR, occurring in the relationship for RER, is calculated and given in column (9). Now, the above relationships can be restated as:

Col. (3) = Col. (5) — Col. (9) *multiplied by* Col. (6)
& Col. (2) = Col. (5) + Col. (10) *multiplied by* Col. (7)

[Columns (6) and (7) should be taken per unit and not per cent if columns (9) and (10) are taken per cent]

Except for a slight discrepancy (not exceeding .02) that has resulted in the case of some periods from approximations to two decimal places the values for the overall and the renewal expense ratios can be verified by the use of the above columnar relationships and the figures in Table 2.5. Thus if we take the year 1966-67, it will be found that the RER, 15.91 per cent, is exactly equal to 19.34—(.2111 multiplied by 16.24); and OER, 27.72 per cent, is exactly equal to 19.34+(48.09 multiplied by .1744), if the products are taken correct to two decimals in each case.

2.7.12. It is often held that any increase in the ratio of the first year premium to the total premium results in an increase in the OER. The Corporation itself explained the rise in the OER in 1958 on the basis of this statement. This statement, however, has to be qualified by the condition 'other things remaining the same'. But these other things rarely remain the same even during a short period, though they may not substantially change, except very rarely, during such a short period. For instance, a reference to columns (2) and (7) will show that during each of the years 1959, 1960 and 1963-64, the proportion of the first year premium to the total premium increased is compared to the previous period, and yet the OER decreased. The reason is obviously the decrease in the cost ratios, except for the slight increase in 1960 in the RCR, and the decrease in their difference [Cols. (4), (5) and (10)]. In 1960, the slight increase in the RCR (+0.05) was more than counter balanced by the decrease in the other terms from .2172×47.38 *i.e.* 10.29 to .2205×45.36, *i.e.* 10.00. Hence, in spite of the slight increase in the RCR, there was a decrease in OER in 1960. Again in 1962-63, 1964-65, 1965-66 and 1966-67, the proportion of the first year premium to the total premium decreased as compared to the previous year and yet the OER increased. This is again due to the rise in the cost ratios and the rise in the difference between them. Thus it can be seen that in 7 out of the 10 periods, the increase or decrease in OER cannot be ascribed to an increase or decrease in the ratio of the first year's premium to the total premium.

2.7.13. If the RER is to be taken as an appropriate index of the level of renewal expenses, then it should not only rise or fall as the RCR rises or falls, but the RER and RCR should be nearly equal, for they are measures of the same type of expenses viz. renewal expenses. In the case of the Corporation it can be observed that they rise or fall simultaneously except for the year 1960, when, in spite of the slight rise in the RCR, RER registered a slight fall. The reason is that the rise of .05 in the RCR is more than counterbalanced by the increase in (.2829×19.58), *i.e.* 5.54 from (.2774×19.73), *i.e.* 5.47.

2.7.14. Another characteristic of the RER is that even when it rises or falls together with the RCR, the rise or fall in the RER is substantially greater than the rise or fall in the RCR. For instance, when the RCR fell in 1959 by as much as 1.02, the RER fell by 2.54; while in 1964-65 when the RCR increased by .32 the RER increased by 1.63. They are, however, not nearly equal in any year, the RCR being always higher than the RER. This is because the NBER has been higher than the NBCR [Cols. (8) and (4)]. It can be seen that whatever method of analysis of expenses might be used, it is extremely unlikely that it would produce a near equality between RCR and RER **throughout** a given period.

2.7.15. The anomaly between the year 1961 and 1963-64 has already been referred to in para 1.9.24 of the Chapter on 'Indices of Expenses'. Though the cost ratios are smaller in 1963-64, the RER has increased. The reason for the anomaly is the following:—

> The RCR in 1963-64 is smaller than that of 1961 by .13 but the product Col. (6)×Col. (9) .2645×21.37, *i.e.*, 5.65, in the former year is smaller by slightly greater margin than the

similar product in 1961, i.e. .2747×21.18, i.e., 5.82. Thus, whereas in 1963-64 the RER=(the RCR i.e. 18.11)—5.65, i.e. 12.46: in 1961 the RER=(the RCR i.e. 18.24)—5.82, i.e. 12.42.

2.7.16. Again, if we compare the results of 1967-68 with those of any of the years 1964-65 or 1965-66, we find that even though the cost ratios are lower in the latter years, the overall expense ratio is higher. Similarly a comparison of the years 1958 and 1967-68 gives an instance of lower cost ratios going with a higher RER in 1967-68.

2.7.17. A complete explanation of the variations in RER is not possible in terms of the variations in the itemwise cost ratios. This is one of the weaknesses of the RER as a measure of expenses. It may be possible to provide such an explanation with the OER if the cost ratios for various items of expenditure are also similarly worked out in relation to the total premium, but the OER ignores the fundamental fact that the expenses of an insurer like the L. I. C. in relation to any one policy are substantially greater in its first year than in any of its subsequent years. With this fact duly allowed for in the cost ratios the cost experience of the years 1964—68 has been seen to be adverse, and that of the years 1959—61 favourable; but ignoring this fact, if one is to go only by the overall expense ratio, the picture is seen to be just the reverse. The OER for each of the years 1964-65, 1965-66, 1966-67 and 1967-68 is less than that for each of the years 1959, 1960 and 1961. This shows how unsuitable the OER is as a measure of the expenses of an insurer like the L. I. C.

2.7.18. After 1958, the only annual reports in which the Corporation has commented upon its overall or renewal expense ratios are those for the accounting periods 1960, 1962-63 and 1963-64. The other annual reports merely mention the figures for these expense ratios without any comments. Thus, in the report for the year 1960 the following remarks appear:

> "The overall expense ratio, *i.e.*, the ratio of expenses to premium income for the year, is 28·4% as against 28·7% for the year 1959. The renewal expense ratio for the year is 12·90% as against 12·92% for the year 1959. As explained later in the report, the Corporation had to grant an *ad-hoc* increase of Rs. 15/- per month in the dearness allowance to all Class I Officers drawing a basic salary of Rs. 500/- or less per month and to field officers and supervisory, clerical and sub-staff in India. The total amount paid under this head for 9 months of the year was Rs. 46·44 lakhs, which works out to 0·61% of the renewal premium income during the year 1960. But for this expenditure and some other increases in expenditure the renewal expense ratio for 1960 would be much less."

2.7.19. The above extract emphasies that, in spite of adverse circumstances, the results as regards expenses are satisfactory. For a Committee like ours charged with the task of suggesting measures for reducing expenses, it is necessary to examine how, in spite of this unexpected increase of Rs. 46·44 lakhs, the renewal expense ratio was still slightly lower than

that of 1959. Part of the explanation for this lies in the artificiality inherent in the RER which has already been illustrated in para 1.9.3. The proportion of the first year premium to the renewal premium was higher in 1960 than in 1959. It may also be observed that the *ad-hoc* increase in dearness allowance, so far as the administrative staff was concerned, was contained by the percentage rise in the total premium. As regards the *ad-hoc* rise to the Development Officers, though the first year premium did not rise adequately enough to contain the rise in P.S.E. and, therefore, the P.S.E. cost ratio rose in 1960, there was a larger fall in Medical Fees cost ratio and the advertisement cost ratio which was responsible for the lower RER.

2.7.20. The Report for 1962-63 states :

> "The overall expense ratio for the accounting period is 29·3% as against 28.0% for the year 1961. The renewal expense ratio for the period is 14·13% as against 12·42% for the year 1961. The increase in the expense ratios is mainly attributable to two causes. Firstly, consequent upon the settlement with the two Associations representing the employees in Classes III and IV, there has been an addition to the expense on salaries and allowances due to the revision of the salary scale of the above classes of employees with effect from 1-1-1962. Secondly, whereas the expenses other than those that the directly dependent on the premium such as commission were, during the three months, January, February, and March 1963, practically one-fourth of those for a full year, the renewal premium income during these three months was much less than one fourth of the renewal premium income for a full year due to concentration of new business towards the end of the year over the past several years.

2.7.21. It will be seen from the figures in Tables 2.2 and 2.5 based on the modified renewal premium for 1962-63 that the increase in the expense ratios still remains after eliminating on a reasonably approximate basis the difficulty created by the unusual length of the accounting period, and this residue of increase is attributable to the increase in A.S.E. emoluments not being adequately contained by the rise in the premium. Further, even the P.S.E. cost ratio increased in 1962-63. The Annual Report for 1963-64 refers to this very question, and says :

> "The overall expense ratio for the year is 27·5% as against 29·3% for the 15 months period ended 31st March, 1963. The renewal expense ratio for the year is 12·46% as against 14·13% for the 15 months period ended 31st March, 1963. The expense ratios have come down to the level obtaining before the previous accounting period of 15 months and this is in spite of the increase in salaries and allowances of employees in Classes III and IV from 1-1-1962 and in Class II from 1-1-1963."

2.7.22. Here again it is necessary to know how in spite of the normal yearly increase for 1963-64 being added on to the unbudgeted increases arising from revisions of salary scales from 1-1-1962 for Classes III and

IV and from 1-1-1963 for Class II, the renewal expense ratio for 1963-64 came down to the level obtaining before 1962-63. In fact, even the cost ratios in 1963-64 were lower than those in 1961. Here again the explanation seems to be somewhat similar to that for 1960. The percentage rise in the total premium for 1963-64 was 29·93%, whereas the rise in the A.S.E. was 29·70% in each case as compared to 1961; *i.e.*, the former was slightly more than enough to contain the latter. The position was very much the reverse of this in 1962-63, the rise in A.S.E. being 18·86% as against the rise of 12.99% in the total premium. So far as P.S.E. is concerned, though in both the periods 1962-63 and 1963-64 (in each case as compared to 1961), the total first year premium did not rise adequately enough to contain the rise in P.S.E., the position was somewhat less unfavourable in 1963-64 than in 1962-63. This is reflected in the P.S.E. cost ratio being higher by 1·59 in 1962-63 and by 1·45 in 1963-64 than that in 1961. Even this rise of 1.45 was more than counterbalanced by the decrease in the cost ratios under medical fees and first year commission in 1963-64 as compared to 1961. This was not so in 1962-63. The much higher decrease in the cost ratio of first year commission in 1963-64, than in 1962-63, as compared to 1961, was due to the fact that the income from the single premiums in 1963-64 was greater than that in 1961 by Rs. 78.43 lakhs whereas the similar difference in 1962-63 was only Rs. 13.10 lakhs. It is known that single premium policies are less costly than ordinary policies with normal premium paying periods.

2.7.23. The manner in which the reduction in the medical fees cost ratio has affected the renewal expense ratios and the new business cost ratios for 1960, 1961 and 1963-64 can be seen from the following :

If the medical fees cost during each of the years 1960, 1961 and 1963-64 were the same proportion of the first year premium and the single premium as that for the entire period from 1-9-1956 to 31-12-1959, then the renewal expense ratios for these years would have been 13·06%, 12.98% and 13.28% respectively, *i.e.*, in each case greater than the renewal expense ratio for 1959. This shows that the introduction of the non-medical scheme (General) and the periodical increase in the limits for non-medical business have materially affected the comparative picture of the renewal expense ratios for 1959, 1960, 1961 and 1963-64. The above calculation presupposes that there is no appreciable change in the proportion to the total first year premium of the first year premium (including single premium) payable under policies not requiring a medical examination by the very nature of the policy contract.

2.7.24. On the same assumption about the cost of medical fees, the new business cost ratio in the years 1960, 1961 and 1963-64 would have been 64.37%, 65.43% and 65.91% respectively.

Summing up :

2.8. We can now summarise the conclusions that emerge from our study of the Cost and Expense Ratios of the Corporation :

(a) Though the renewal expense ratio is a defective index of the level of expenses, the present high level of expenses as indicated by it

is confirmed by a more reliable index, *viz.*, the cost ratios. Further, whatever method of analysis is used, the budget method or the actuaries' method, the present high level of expenses is confirmed by both.

(b) It is not possible to explain fully the variations in the overall expense ratios or the renewal expense ratios for the various periods except with reference to the basic cost ratios and the new business expense allowance (NBER). Further, as has already been stated in Chapter I, neither the OER nor the RER, by itself gives us any reliable indication of the expenses of the Corporation.

(c) Variations in the cost ratios can be explained completely with reference to itemwise cost ratios. This enables the causes of the variations to be studied fully. Cost ratios are particularly useful from this point of view, besides furnishing a more reliable measure of expenses as explained in Chapter I.

(d) Apart from self-regulatory expenses (like commission, policy stamps, etc.), staff emoluments account for the major portion of expenses, and the variations in the cost ratios are to a large extent due to variations in staff emoluments.

(e) The increases in procuration staff emoluments and administrative staff emoluments contribute to an increase in the basic cost ratios unless they are contained by increases during the corresponding period in the first year and total premiums respectively.

(f) The period 1959 to 1961 is one of favourable experience while that of 1964 to 1968 is one of adverse experience with regard to expenses for the L.I.C. The favourable experience of 1959-61 is largely due to the introduction and extension of non-medical schemes, and to the comparatively large increase in new business in those days. From 1-4-1964 to 31-3-1967 the cost ratios continuously increased, largely because the staff emoluments increased substantially, and there was no adequate growth in the premium income. The year 1967-68 showed no further increase in the cost ratios, but the payments to staff for this year have been or *may have* to be made subsequent to the closure of the accounts for this year.

CHAPTER III

LEVEL OF L.I.C'S EXPENSES

3.1. In the preceding chapter, we have attempted to examine the trend of expenses of the L.I.C. with the help of the usual indices that are used to evaluate the expense performance of life insurance undertakings. The main purpose of this examination was to discover whether expenses have been increasing or decreasing, and what the causes of the variations from year to year were. But whether the general run of this level—apart from yearly variations in it—has been high or low—in other words, whether the lowest indicator of this level during the last ten years has been too high or the highest has been sufficiently low is another question, and it is this question that we propose to examine in this chapter. 'Too high' or 'sufficiently low' are relative terms. An examination of whether a level is high or low has essentially to be by comparisons. We shall, therefore, first attempt to compare the L.I.C's expenses with those of other insurers; and then discuss how the L.I.C's expenses could be maintained at the minimum possible level.

Comparison with previous insurers-Special Features of 1954-1955

3.2.1. Prior to the nationalisation of life insurance on 19th January 1956, a number of Indian and foreign companies were transacting life insurance business in India. It is, therefore, natural that a comparison of the L.I.C's experience in the matter of expenses should be made with these former private companies. As the conditions that affect expenses change from time to time, the experience of the private insurers in the years immediately precedent to nationalisation would be the most relevant for a comparison. Even in the case of these years, one has, as far as possible, to choose years that are free from any special features that caused temporary fluctuations. In each of the two years, immediately preceding nationalisation, 1954 and 1955, there were such features.

3.2.2. In 1954 there was a reduction of premium rates with a consequent steep increase in new business. The spurt in new business continued in 1955 as well. Again, the introduction and full exploitation of staff schemes which involved direct business without payment of commission was another feature of the years 1954 and 1955. We cannot choose 1953 since the conditions in that year would not sufficiently represent conditions as at the end of 1955, which the Corporation inherited. The L.I.C. inherited the administration of all the private insurers and, therefore, the conditions in 1954 and 1955 under private enterprise, except for the special features that have been already pointed out, were perhaps most similar to those obtaining in the Corporation in its early years. Thus, the years 1954 and 1955, though somewhat abnormal, cannot be entirely ignored. Under the circumstances we felt that the overall experience of the three years 1953, 1954 and 1955 would present a reliable picture of the conditions that prevailed immediately before nationalisation. We have also examined the figures for the year 1955 separately.

Information available

3.2.3. The following information relating to the pre-nationalisation period is available from the Insurance Year Books and the published annual reports of the erstwhile insurers.

(i) overall expense ratio and renewal expense ratio,

(ii) separate figures for first year and renewal premiums and

(iii) the total expenses of management (More details of this item are available in the annual reports, but since, except in a few cases, salaries, etc. are given for both administration and development staff,—including organisers, inspectors, etc—together, the information available is not sufficient to calculate the NBCR and the RCR of these companies even by the method used by L.I.C. in its budget analysis).

3.2.4. We have already pointed out the defective nature of the OER and the RER, and explained why neither of these ratios can be relied upon to provide a base for valid comparison.

3.2.5. Even with the help of the ratio of the first year premium to total premium, the OER and the RER are not of much use for a comparison, since, besides this ratio, there is another extraneous factor involved in the OER and RER, *viz.*, the difference between the two cost ratios or the difference between the NBCR and the new business expense allowance, NBER. However, since the figures for the total expenses and the first year and the renewal premiums are available, if one of the cost ratios is assumed at a particular level, the other can be found out. Moreover, the corresponding values of the two cost ratios have a certain relationship between them. For instance, let it be assumed that in a particular year, the NBCR of a certain insurer is found to be 66 per cent on the assumption that its RCR was 18 per cent. If the RCR had been assumed at a lower (or a higher) figure, the resulting NBCR would have been higher (or lower) than 66 per cent. In other words, if 18 per cent is the maximum (or minimum) limit for the RCR, 66 per cent becomes the minimum (or maximum) limit for the NBCR. It is thus possible to obtain the minimum (or maximum) limit for the NBCR by assuming a certain maximum (or minimum) limit for the RCR. If, therefore, it is possible to say that the RCR of a private insurer could not have been more than a particular figure, then some inference can be drawn about its NBCR on the basis of a minimum limit for it. It is thus possible to compare the NBCR of private insurers (arrived at in this manner) with the lowest or highest NBCR of the L.I.C.

Is the L.I.C's RCR higher?

3.2.6. From a prior consideration it appears that the RCR of the L.I.C. has been higher than that of private insurers. It appears that the following may have been the main reasons for this feature:

(i) Higher emoluments were paid to a large section of staff as a result of the standardisation of pay scales. In the annual report for 1957, the increase in the salary bill due to this cause alone has been given as Rs. 72 lakhs per annum;

(ii) the staff taken over by the L.I.C. was considered as surplus for the business taken over. Even so, L.I.C. found it necessary to appoint additional staff;

(iii) soon after its establishment, the Corporation found that there was shortage of qualified accountants among the employees taken over from the erstwhile insurers. Officers were also required for the newly organised Internal Audit and the Engineering Departments;

(iv) a better standard of service to the policyholders was devised through manuals, and there was a general stream-lining of procedures;

(v) it is believed that the ratio of the renewal commission to the renewal premium increased after nationalisation as compared to the ratio of all but a few of the biggest among the private insurers. In pre-nationalisation days inter-company transfers of agents could reduce the amount of renewal commission payable. This factor has now ceased to operate.

New India and National

3.2.7. As has been stated in an earlier paragraph, there are a few cases in which the annual reports of the companies concerned have given the salaries of the administrative and development staff separately. For instance, in the case of the New India and the National, separate information about these two sections of the staff is available for the year 1954. If the expenditure of these companies for this year is analysed according to the method adopted by the Corporation in its budget analysis, the following cost ratios (corresponding to those of Table 2.2 of Chapter II) emerge:

	New Business Cost Ratio	Renewal Cost Ratio
New India	70·06	15·86
National	85·15	17·16
L.I.C. (Lowest level) 1963-64 . .	62·82	18·11
(Highest level) 1958 . .	67·99	19·41

3.2.8. For the sake of comparison, the lowest and the highest cost ratios of the L.I.C. are also given in the table. It is seen that even in the case of the fairly well established companies like New India and National, which had a comparatively good standard of administration, as compared to that of most other private insurers of those days, the renewal cost ratios were less than those of the Corporation.

3.2.9. It appears, therefore, that it may be reasonable to conclude that the RCRs of the private insurers were lower than the Corporation's

RCR, which as can be seen from the above figures has varied between 18.11 per cent and 19.41 per cent. We may therefore assume that the private insurer's RCR was less than 19.41 per cent.

3.2.10 The following table gives the overall expense ratio [Col. (2)] and the ratio of the first year premium to total premium [Col. (3)] of certain insurers doing business in India [Col. (1)] for the period 1953—55.

TABLE 3·1

Name of the Insurer	Period 1953—55				Period 1955			
	Overall Expense Ratio %	Ratio of first year to total premium %	NBCR, assuming RCR = 19·41% %	NBCR, assuming RCR = 18·11% %	Overall Expense Ratio %	Ratio of first year to total premium %	NBCR, assuming RCR = 19·41% %	NBCR, assuming RCR = 18·11% %
(1)	(2)	(3)	(4)	(5)*	(6)	(7)	(8)	(9)*
Oriental	26·09	17·50	57·58	63·70	29·11	22·82	63·86	68·52
New India	31·76	26·99	65·17	68·69	34·56	30·49	69·10	..
National	34·66	24·74	81·05	..	37·50	26·63	87·34	..
Hindusthan Co-operative .	31·71	20·98	78·04	..	36·65	22·59	95·73	..
United India	28·48	18·22	69·19	..	31·31	22·13	73·18	..
All Insurers doing business in India	28·94	19·69	67·81	73·11	31·77	22·08	75·19	..
Prudential	22·03	19·34	32·96	38·38	23·64	20·01	40·55	45·75
Sun Life	20·95	16·39	28·81	35·44	21·25	18·31	27·46	35·26

*Figures in Columns (5) and (9) are shown only when no definite conclusion can be reached on the basis of the figures in Columns (4) and (8), i.e., only when the latter are less than the Corporation's NBCR, *viz.* 67·99%.

3.2.11. If the RCR of the private insurer was actually equal to 19.41 per cent, their NBCR would have been equal to the figures shown in column (4); for these are the figures calculated from their total expenses, the first year and the renewal premiums and the RCR taken at 19.41 per cent. If, therefore, their RCR was indeed less than 19.41 per cent, as assumed above, their NBCR would have been higher than the figure in column (4). Thus, we come to the conclusion that Oriental's NBCR was higher than 57.58 per cent (Col. 4) or National's NBCR was higher than 81.05 per cent (Col. 4). The Corporation's NBCR varied between 62.82 per cent and 67.99 per cent. It therefore follows that the National's NBCR was higher than the Corporation's, but no definite conclusion can be drawn regarding the Oriental. Of the other three Indian insurers in the table, the position of the Hindusthan Co-operative and the United India is similar to that of the National, whereas the position of the New India is similar to that of the Oriental.

3.2.12. Columns 6 to 9 give exactly the same information for the year 1955 as columns 2 to 5 give for the period 1953-55. The only difference between the conclusions is that the New India's NBCR for 1955 (Col. 8) is now seen to be higher than the Corporation's NBCR, whereas the position was doubtful for the period 1953-55.

3.2.13. That the Oriental's NBCR for 1953-55 is seen to be higher than 57.58 per cent (Col. 4), and 57.58 is less than the level of the Corporation's NBCR, cannot be a reason to conclude that the Oriental's NBCR was necessarily lower than that of the Corporation. For, 'higher than 57.58 per cent' could either mean higher than 67.99 per cent (in which case the Oriental's NBCR would be higher than the Corporation's NBCR) or 'between 57.58 per cent and 67.99 per cent' (in which case the Oriental's NBCR would be lower than the Corporation's). This is what has led us to say that the position of the Oriental and the New India is uncertain. This uncertainty can be removed if we can know the extent to which the Oriental's or the New India's RCR is less than that of the Corporation. If, for instance, the former is not only lower than 19.41 per cent but also lower than 18.11 per cent, the New India's NBCR for 1953-55 becomes higher than 68.69 per cent (Col. 5), *i.e.* higher than the Corporation's NBCR. Similarly, under the same assumption, the Oriental's NBCR for 1955 becomes greater than the Corporation's (Col. 9).

Comparison with all insurers combined.

3.2.14 (a) If we ake the combined figures of all insurers (including foreign insurers) doing business in India before nationalisation, it can be seen from columns (4) and (5) that the minimum limits of their combined NBCR for the period 1953-55 are 67.81% or 73.11% according as their RCR is taken to be less than 19.41 per cent or 18.11 per cent. The former is only fractionally less than the Corporation's highest NBCR. It may, therefore, be said that the combined NBCR for the entire insurance business in India during 1953-55 was very probably higher than the highest NBCR of the Corporation. If we confine our attention to the year 1955 alone (minimum limit 75.19 per cent), the same conclusion emerges with a much greater degree of possibility. It is necessary to emphasise here once again that the conclusions that have drawn in the last

two paragraphs are based on the assumption that the Corporation's renewal cost ratios are higher than those of any Indian private insurer, if the expenses of both are analysed on the basis that the Corporation has adopted in the budget analysis.

(b) In this connection, one other point has to be noted, and that is about the lower premium rates that the L.I.C. charges as compared to what the companies were charging in the period 1953-55. Other things remaining the same, the lower premium rates increase the expense ratios; and, therefore, the lower NBCR and the higher RCR of the L.I.C. must be viewed against the background of the lower premium rates.

Foreign Insurers

3.2.15. In the case of the two foreign insurers, Prudential and Sun Life, doing business in India, the values of the NBCR for the values 19·41 per cent. and 18·11 per cent. of the RCR are very low. Their RCR's may not be exceeding the Corporation's RCR because of the improbability of their NBCR being still lower, than these very low values. Again, if one assumes that the conditions of service with foreign insurers doing business in India were generally better than those of Indian Companies, their RCR could not have been too low, or, in other words, their NBCR could not have been too high. It is, therefore, very likely that both the NBCR and the RCR are, in their case, less than the corresponding ratios of the Corporation. It must also be pointed out that the average sum insured per *new* policy was Rs. 2,950 for Indian Insurers, whereas it was Rs. 7889 for Non-Indian Insurers in 1955. The corresponding averages for the total business in force were Rs. 2,334 in the case of Indian insurers, and Rs. 6,105 for non-Indian insurers. This largely explains the low level of expenses of the foreign insurers doing business in India.

Renewal Expense Ratio

3.2.16. The statistics about the renewal expense ratios of the previous insurers have not been given, since we do not think that any further valid conclusions can be drawn from them.

Comparison with foreign insurers: Information available.

3.3.1. The following information in respect of the U.S.A., Canada and U.K. has been available to the Committee.

	Overall Expense Ratios		
		%	
All U. S. Companies (Combined)	22·0 (1955)	23·4 (1960)	22·7 (1966)
Canada (Large Companies)			22·4 (1964)
All U. K. Companies (Combined) (Ordinary)	13·1 (1955)	13·4 (1960)	13·5 (1965)

3.3.2. Though the exact ratio of the first year premium income to the renewal premium income is not available for any of these groups of companies, some plausible conclusions can be drawn from the above overall expense ratios, and we shall attempt to state them with reasons in the following paragraphs.

U. K. Companies

3.3.3. It may be observed that the Overall Expense Ratio of the companies in the United Kingdom is lower than the Corporation's renewal cost ratio. It is, therefore, obvious that their renewal cost ratio (which is usually less than the OER) will be less than that of the Corporation, and this may well be the position with the new business cost ratio as well. For instance, even if it is assumed that the ratio of the first year to the renewal premium is as low as 1 : 10, for a renewal cost ratio of 10 per cent, the new business cost ratio is seen to be 48·5 in 1965; and for a new business cost ratio as high as that of the Corporation, say, 68 per cent, the renewal cost ratio is seen to be as low as 8 per cent. On the assumption that it is rather improbable that their RCR may be still lower than 8 per cent, it may be said that their NBCR is probably less than 68 per cent.

U.S. companies

3.3.4. The statistics given by the Actuarial Society of India in their Memorandum to us show that the first year premium for U.S. companies was in the neighbourhood of 14 per cent of the renewal premium in 1966. On three alternative assumptions, *viz.*, that this ratio is 10 per cent, 14 per cent and 18 per cent, the new business cost ratios of these companies for 1966 corresponding to a renewal cost ratio as high as that of the Corporation, say 19·4 per cent, and their renewal cost ratio for the same year on the assumption that their new business cost ratio for the year is as high as that of the Corporation, say 68.0 per cent. have been worked out, and are given below:

Ratio of the first year premium to the renewal premium	NBCR (Taking RCR = 19·4%)	RCR (Taking NBCR = 68%)
10%	55·7%	18·2%
14%	46·2%	16·4%
18%	41·1%	14·6%

Here again a probable conclusion appears to be that the RCR of the U.S.A. companies in 1966 was less than the Corporation's RCR, since in the light of such general information as is available, it appears improbable that their NBCR would have been so low as 46·2 per cent or even as low as 55·7 per cent. It is, however, difficult to say how the NBCR of these companies compares with that of the Corporation with the same degree of probability with which we could make a statement about the U.K. companies.

Assumptions

3.3.5. It should be remembered that since the Corporation's cost ratios are based on the budget method of analysis, the U.K. or the U.S.A. cost ratios would also have to be calculated by the same method if they are to be comparable. We have made the comparisons in the preceding paragraph on the assumption that the accounts of the U.K. or the U.S.A. companies lend themselves to the use of this method of analysis.

Reliability of Comparison of Cost Ratios: Degree of Economy

3.4.1. It has already been observed in Chapter I that cost ratios worked out on an identical method of analysis are a sufficiently reliable index of the degree of economy in management of two insurers, or of the same insurer in two different years. However, even this statement is subject to certain qualifications. The degree of economy referred to here is what results from all causes within or beyond the control of the management.

Factors affecting Cost Ratios

3.4.2. It is well known that part of the expenses of an insurer are proportionate to the premium; a part depends upon the number of policies, and yet another part depends upon the sum assured. Moreover, in the final analysis, the overhead expenses depend upon none of these units. Since the cost ratios express all these expenses as a percentage of a single unit, *viz.* the premium, it is necessary to take into account the *average* premium per policy, the *average* premium per thousand sum assured, and the *proportion* of the overhead expenses to the total expenses. Further, there are various types of policies under which expenses are incurred at a materially different rate, and the *distribution* of the total business over these different types will also have to be taken into account. While comparing the cost ratios of two insurers, the differences between them regarding the averages, the proportion and the distribution just mentioned, will all have to be taken into account. It is known that there are substantial differences in these respects between insurers in the U.K. or U.S.A. and the L.I.C. These differences represent causes of variation that are largely beyond the control of the management, and it is not very easy to split up the total variation into what is due to these causes and what may be taken as due to causes within their control. The latter causes alone can indicate the quality of management of different insurers. It is, therefore, risky to draw conclusions about these qualities merely from a comparison of the cost ratios. All that is practicable, and probably even necessary, is to examine the variations between the cost ratios of the two insurers and to account for them as far as possible. The following remarks of Mr. J. M. Hughs of Mutual Life of New York appearing in the proceedings of the Life Offices Management Association for the year 1954 are worth quoting in this connection:

> "In the first place, I have never seen a method of calculating the cost ratios which produces valid comparable information. Secondly, if it were possible to develop a formula which would produce a valid ratio, the company with the lowest expense ratio can still be wasting policy-holders' money in various ways. For instance, the company with the lowest ratio might be

doing an excellent job in the larger cost area of premium collection, but have a very high cost in handling the payment of claims."

3.4.3. The level of expenses of different insurers should be compared only with a view to knowing whether their experience provides a lesson, and if so, to ascertain, what it is.

Economies of scale

3.5.1. It is aften asked whether the magnitude of the business of the Corporation to-day has produced the economies of scale which were expected to result from it. It has been argued that as the size of the business grows, the ratio of the overhead expenses to the premium should decrease, since the overhead expenses do not increase proportionately with the business. In fact, the percentages of expense allowances provided in the Law of Limitation of Expenses (Rule 17D)* as it applied to private insurers decreased as their size increased; and this is taken as evidence in support of the argument that we have cited. We have learned that when this question arose for consideration at the Board Meeting that considered the budget for the year 1964-65, the Managing Director said that "the question of size was not material after the business had reached a certain size". This is of course correct. For instance, taking the overheads to

*Rule 17D limits the total expenses of a life insurance company with more than 10 years' standing to the sum of certain items, one of which is as follows :—

(*v*) an amount computed on the basis of percentages for the time being appropriate to the size of the Insurer's life insurance business. Only one of these percentages, namely, that applicable to the renewal premiums, is mentioned in the following table :—

Size of insurer's life insurance business	Percentage of renewal premiums (less reinsurances) received during the year other than renewal premiums under deferred annuities.
....	
....	
....	
....	
If the insurer's business in force	
(*a*) is less than two crores of rupees . .	18
(*b*) is less than five crores of rupees but not less than two crores	17
(*c*) is less than ten crores of rupees but not less than five crores	16
(*d*) is not less than ten crores of rupees .	15

be Rs. 1 crore, if the premium income increases from Rs. 80 crores to Rs. 150 crores, the consequent contribution of the overhead expenses to the per cent expense ratio decreases from 1·25 to 0·67; i.e., by 0·58. But if the premium further increases from Rs. 150 crores to Rs. 225 crores, the corresponding decrease in the contribution to the per cent expense ratio is only 0·23. This shows that as the size increases, the effect of this increase on the expense ratio becomes less and less, and after a certain stage, it becomes insignificant upto say, 2 decimal places which may be taken as the practical limit to which expense ratios can be expressed. It is, however, very necessary to measure the overhead expenses so as to judge whether they are reasonable or whether the limit of economies of scale has actually been reached. The Managing Director's statement stresses the fact that automatic and continuous reduction in the expense ratio is not to be expected merely on the ground of continuous increase in size, after a certain stage. Whether that stage has actually been reached in the case of the L.I.C., or not, can be known only when the quantum of overhead expenses becomes available.

3.5.2. The other question whether the consolidation of the different private insurers into one unit at the time of nationalisation itself did not produce a surplus strength in staff and whether the subsequent increase in business did not help to absorb this surplus strength and cause a reduction in the cost ratio is a slightly different question, and it is considered elsewhere in this report.

Minimum level of expenses: Search for the minimum level

3.6.1. There can be no doubt that the management of a business undertaking should make a constant attempt to devise ways and means to keep the expenses at the minimum possible level, irrespective of whether one is working within a prescribed expense ratio or not. If one is already exceeding this ratio, as the L.I.C. did upto 31st December 1958, the first objective should be to see that the expenditure is reduced to the extent necessary to be within the prescribed limit. But even when this objective has been achieved, the necessity for examining whether the level of expenses could be lower does not cease. Unavoidable increases in expenditure may take place, such as those arising from a revision of the salary grades and/or allowance paid to neutralise the effects of inflation. If the only aim is to work within a prescribed expense ratio, and not necessarily at as low a level as possible, it may happen that these unavoidable increases in expenses make the expense ratio pierce the ceiling. But if the main objective is to "serve the interests of policy-holders to the maximum possible extent", as the Resolution appointing our Committee says, we have no doubt that the management should be constantly guided by the need to work at *as low a level of expenditure as possible as well* as the need to work within the prescribed limit.

Working within the maximum

3.6.2. But the Corporation seems to have been less concerned with keeping expenses at the minimum than with watching the RER, as is evident from an observation that the Chairman of the Corporation is reported to have made at a meeting of the Board (30th March, 1964).

He referred to the Government's concern at the progressive rise in the RER and said that "he could not appreciate this concern when he was working within the statutory maximum". The Chairman probably thought that the progressive rise was inevitable under the circumstances, and that since the Government too was or should be aware of this inevitability, it should not show any concern. This would have been quite an understandable attitude on his part. But one cannot understand why he chose to imply that the Government should not show any concern at the progressive rise so long as the limit is not crossed. It should have been clear to everyone that if the progressive rise continued it was only a matter of time for the statutory limit to be transgressed. In fact, this is what happened in the year 1966-67. Moreover, at the time of nationalisation, Government had assured Parliament that, once the initial difficulties were over, 'the Corporation would certainly be able to keep its renewal expense ratio at a much lower figure than this 15 per cent, which incidentally' was 'rather a high limit'.* So there were valid reasons for the Government to be concerned at the progressive rise in the renewal expense ratio, even though the statutory limit had not been crossed. *We, therefore, recommend that the Management of L.I.C. should be constantly guided by the need to work at as low a level of expenditure as possible, as well as the need to work within the prescribed limits of expenses.*

Suggestions of the Actuarial Society

3.6.3. Any investigation into the minimum level of expenses will have to deal with (i) the remuneration payable to different categories of persons rendering service to the Corporation and the cost of goods required by the Corporation; and (ii) ways of increasing efficiency and productivity or maximizing the output for a given input of money. These two are not entirely watertight areas; for, in considering the remuneration or the cost, the objective of securing the maximum output will also have to be kept in view. Yet, it is possible to examine these questions separately. We have dealt with the question of remuneration and cost elsewhere in this report. In this chapter we shall deal with efficiency and productivity and shall discuss some very useful suggestions that the Actuarial Society of India has made for controlling the operating costs and keeping expenses at the minimum level.

3.6.4. The Society has mentioned three steps that can be taken to keep expenses at a minimum level.

They are:

"(i) Controlling the kind of work performed;

(ii) Controlling the systems and methods used in performing a given piece of work;

(iii) controlling the efficiency with which the goods and services purchased are used in performing the given work with the given systems."

3.6.5. The first two of these can very well be described as Review of Functions and Procedure. The third relates to the field of cost control and Management costs. The Society has pointed out that Work Measurement, Functional Costs and Budgetary Control are 'the three integral

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*Col. 8887 of Lok Sabha Debates, 12th Session, 1956.

components' of a system that can help to improve the productive efficiency of the goods and services used in the administrative machinery. Some of the suggestions made by us elsewhere in this report fall within the scope of these topics. However, apart from any specific suggestions, our Committee welcomes the idea of setting up a more or less permanent machinery for dealing with all such topics. *We, therefore, recommend that a more or less permanent machinery should be set up to examine the various aspects of modern management techniques such as Work Measurement, Functional Cost analysis, etc. with a view to applying them, with due caution and safeguards, to the Corporation's activities.*

3.6.6. This has, however, to be done with due caution and safeguards. A somewhat similar machinery already exists in the L.I.C., as in most other industrial undertakings and Government Offices, under the name of the O. & M. Department. But, as has often been pointed out, the O. and M. machinery will not "have any real measure of success without full pack backing from the top management. Equally, they can only flourish in the right climate, and for their success it is essential that the right attitude of mind should be developed at all levels of the organisation. This attitude is partly one of being prepared to consider, and even welcome change, and partly one of the recognition of the importance of the costs".* The Committee cannot say that this 'right climate' exists at any level of the Corporation to-day. We can cite two instances that illustrate the position.—

(i) The Services and Budget Committee, at its meeting to consider the budget for the 1968-69 suggested 'formulating measures of work load for different categories of staff' as one of the steps to reduce expenses. Our Committee was interested to know what had been done to implement the suggestion of the Services and Budget Committee. In reply to our enquiry, the Corporation has informed us that "Job break-down and work flow charts have been prepared for the New Business Department in the Branch, Divisional, Zonal and Central Offices** and of the Salary Savings Scheme in the Divisional Office. This has to be followed up by time studies, which can only be done with the co-operation of the staff unions, which have so far not agreed to this type of study. Only after this study is made, can the staff requirements be properly assessed." It is clear from this that the staff unions have not so far been willing to co-operate in projects involving time studies and, therefore, in expediting changes that such studies may have led to.

(ii) At a meeting of the Board of the Corporation held in January 1962, a member 'referred to the current method of calculating the renewal expense ratio according to which 90 per cent of the first year premium is allowed as cost of new business during the year, and suggested that a more realistic approach would be to allow 60 per cent or 65 per cent instead of 90 per cent towards the cost of new business'. It is rarely that a member of the Board makes a suggestion that affects the working of the Corporation so fundamentally. On merits, the suggestion did deserve very careful consideration on the part of the Corporation. The Chairman agreed

*J. S. S. Vol. 18, Part 2, P 138

**With reference to the Zonal and Central Offices, probably the Development and/or Underwriting Department is meant here ; since, according to the information supplied to the Committee, there is no New Business Department in these Offices.

to examine the suggestion. Yet, there was no subsequent study or examination of the suggestion. The fact that the suggestion was not considered further does indicate an attitude of conservatism that refuses to review and evaluate even fundamentals that affect the working of the L.I.C.

3.6.7. Our intention in citing these instances in not to blame anybody, but to point out that Modern Management Techniques, such as Measurement of Work and Analysis of Costs by Functions, etc., can succeed and yield results only if all echelons are prepared to co-operate and accept changes that are necessary to improve efficiency. The application of these techniques does mean more expense, and a hastly step in this direction without the proper background or preparation may only increase expenses without ensuring the expected benefit. This does not mean that all that one has to do is to wait patiently for the right climate to dawn. The right climate cannot be created without conscious effort and education; and to a certain extent, experimentation with the modern techniques will itself be a part of this education. *We, therefore, recommend that the Corporation should take all possible steps to create and maintain a climate that is conducive to the success of modern management techniques by introducing these techniques while concurrently carrying on an effort to educate the workers and all echelons of management of the effectiveness, inescapability and progressive nature of modern techniques of business management.*

CHAPTER IV

LIMITATION OF EXPENSES

Historical:

4.1.1. It has always been recognised that the nature of the business of life insurance is such that it justifiably attracts a degree of control and supervision from the Government. One of the ways in which the Govt. can exercise this regulatory control is by prescribing and enforcing a limit of expenses. In the U.K., life insurance companies are allowed a comparatively greater degree of freedom and are only required to publish information on certain aspects of their operations in a prescribed manner. There is no statutory limitation on the expenses of insurers in the U.K.

4.1.2. The Indian Insurance Legislation that was originally framed in 1912 was along the lines of the laws that obtained in the U.K. and it did not contain any provision for the limitation of expenses. It was only in 1950 that statutory limits were imposed on the expenses of life insurance companies in India. The Life Insurance Corporation Act of 1956 made the provisions of the Insurance Act relating to the limitation of expenses applicable to the LIC with suitable modifications. These modifications were gazetted on 23rd August 1958, and therefore it could be said that the LIC's expenses were limited since that date.

Limitation of Expenses—Private Insurers:

4.2.1. The *limits* for the expenses of life insurance company and the *procedure* of dealing with any transgression of these limits and other relevant provisions dealing with the limitation of expenses are dealt with in Sections 40B(2) and 64K of the Insurance Act and Rules 17D and 17G of the Insurance Rules. Section 40B(2) and Rule 17D lay down the limits, and Section 64K and Rule 17G prescribe the procedure.

Rule 17D Limits:

4.2.2. Section 40B(2) of the Insurance Act stipulates that no insurer shall, in respect of life insurance business transacted by him in India, spend as expenses of management in any calendar year an amount in excess of the prescribed limit. The limit referred to in the Section has been mentioned in detail in Rule 17D as the aggregate sum of the following:—

(i) 5 per cent of all premiums received during the year on policies granting an immediate annuity or a deferred annuity in consideration of a single premium and 5 per cent of all premiums received on other single premium policies during the year;

(ii) (a) 10 per cent of all first year's premiums and (b) 4 per cent of all renewal premiums,

received during the year on policies granting deferred annuity in consideration of more than one premium;

(iii) One-twentieth of 1 per cent of the average of the total sum assured (less reinsurances) by policies on which no further premiums are payable at the beginning and end of the year;

(iv) 1 per cent of all annuities paid during the year;

(v) 15 per cent, 22½ per cent, 30 per cent...... upto 90 per cent of other first year's premiums received where the maximum premium paying period under the policy is 2, 3, 4...... 12 or more years;

(vi) 15 per cent of all renewal premiums other than those referred to in item (ii)(b), received during the year.

4.2.3. These limits that have been prescribed were made applicable to all insurers who have been in the life insurance business for 10 years or more and whose business in force was not less than 10 crores of rupees. Slightly higher percentages of the first year's premium and renewal premium under items (v) and (vi) above have been allowed to insurers who have been in business for a period of less than 10 years or whose business in force is less than 10 crores of rupees.

Further Limits:

4.2.4. Section 40B also provides that the Controller, after consultation with the Executive Committee of the Life Insurance Council, may fix in respect of each year, the further limits by which the insurer's expenses may exceed the ceilings laid down in Rule 17D. No insurer is to be deemed to have contravened the provisions of Section 40B if his total expenses are within these increased limits. Section 64K provides that the Executive Committee of the Life Insurance Council shall meet at least once before the 31st March every year to advise the Controller in fixing the 'further limits' referred to in Section 40B.

Procedure of dealing with contraventions :

4.2.5. If an insurer's total expenses of management exceed even these increased limits, the Controller may administer a warning to the insurer after giving him an opportunity to be heard. [Section 64K(2)].

4.2.6. In cases where, within a period of 7 years, two warnings have been given to an insurer and they have been disregarded, the Controller may cause an investigation and valuation to be made as at a date that the Controller may specify. [Section 64K(3)].

Valuation :

4.2.7. The procedure to be followed after the receipt of the results of this valuation have been elaborated in Rule 17G:—

(i) If the valuation shows that the insurer concerned is insolvent, the Controller may cancel the registration of the insurer and request the Executive Committee of the Life Insurance Council to consider whether, in the cricumstances of the case, it is possible to have the

business of the insurer reconstructed (say, sum assured under all policies reduced), or—whether some other insurer is willing to take over the business. If no practical steps for reconstruction or transfer are forthcoming, the Controller may apply to the Court to take steps to authorise the winding up of the concern.

(ii) If the valuation does not disclose that the insurer is insolvent, the actuary making the valuation will have to examine whether there has been an encroachment on the bonus loading contained in the premiums, and if so, whether this encroachment has been due either partly or wholly to heavy expenses after giving credit for any profit made in other directions. If the actuary's finding is in the affirmative, the Controller may then request the Life Insurance Council to advise on the steps that can be taken to ensure that the encroachment does not continue or recur. Finally, the Controller may issue such directions to the insurer as he deems fit, and if these directions are not complied with, the Controller may apply to the Court for the winding up of the insurer (Rule 17G).

Application to L.I.C.:

4.3.1. The preceding paragraphs have stated the limitations and procedures that applied to private insurers prior to nationalisation. But the position of the LIC is not the same as that of the private insurers. Section 40B and Rules 17D have been made applicable to the LIC after deleting the references to the Life Insurance Council. For the purposes of Rule 17D, the LIC has been taken as an insurer with more than ten years' standing though there is no specific legal provisions that confers this status on the LIC. Further, since the LIC's business in force has been more than Rs. 10 crores right from the beginning, the limits stated in paragraph 4.2.2. of this chapter have been taken as applicable to the LIC. As for the further limits referred to in paragraph 4.2.4. they have now to be determined by the Controller acting on his own. Unlike in the case of the private companies, he is not obliged to act in consultation with or on the advice of anybody. The Executive Committee of the Life Insurance Council (which was a representative body of private insurers) naturally ceased to exist when nationalisation came into effect.

4.3.2. Section 64K has not been made applicable to the LIC. Consequently Rule 17G has also not been made applicable. This has resulted in a situation in which one finds that the Act has not prescribed any specific procedure or steps that can be taken against the LIC if the Corporation contravenes or transgresses the limits prescribed for expenses under Section 40B. It would, therefore, appear that in the absence of any such specific procedure, if there is a contravention of Section 40B(2), the only Section applicable would be Section 102, which deals generally with the contraventions of any of the requirements of the Insurance Act or any rules made under the Act. Under this Section, the LIC and its Chairman, any Member, Managing Director, Manager or other officer of the Corporation, who is, knowingly, a party to the contravention, is punishable with a fine.

Appraisal of the Scheme : Business in India

4.4.1. It can be observed that the scheme of limitations of expenses that has been described in paragraphs 4.2.1. to 4.2.5. applies only to the Indian business of the companies of the Corporation. This means that both the premiums received and the expenses incurred under foreign business are to be ignored. The foreign premium income and foreign expenses are only a small fraction (about 2 to 3 per cent for the period from 1st April, 1964 to 31st March, 1967) of the corresponding items under total business. Further a difference in regard to Rule 17D would arise between Indian business and total business mainly so far as the proportions of the different types of premiums under foreign business to the corresponding premiums under total business differ from one another and from the similar proportion for expenses. As the proportions for total premiums and expenses are about 2 to 3 per cent, the difference between the various other proportions referred to will not lead to any significant error, if we assume that Rule 17D applies to total business. Moreover, what we are concerned with in this chapter is not so much the result of the application of Rule 17D, but the merits of the scheme envisaged by Rule 17D. It will not, therefore, matter very much if we assume that the scheme applies to the total business. In fact such an assumption is required to be made only because the RER, NBCR, NBER and RCR which have been discussed in the context of the total business in the preceding chapters, have now to be referred to in the context of Rule 17D which, on a strict interpretation, should be applied only to Indian business.

Comparison with Rule 25(b)

4.4.2. The percentage under items (i), (ii)(a) and (v) in the limits of expenses in paragraph 4.2.2. relate to first year premiums. The percentages under item (v) are identical with similar percentages in Rule 25(b). It is true that the percentages 5 and 10 under items (i) and (ii)(a) differ from corresponding percentages in rule 25(b); but the premiums under (i) and (ii)(a) are generally very small in comparison with the premiums under item (v). Thus the single effective percentage arising out of items (i), (ii)(a) and (v) will be very nearly equal to the first year expense allowance under Rule 25(b) which has been referred to as the NBER in the preceding chapters. Ignoring the very slight difference between this effective percentage and the NBER referred to in Chapters 1 & 2, we may use, in this chapter, the same symbol NBER with the same significance to denote the effective percentage arising out of items (i), (ii)(a) and (v). Similarly, items (ii)(b) and (vi) relate to renewal premiums, and the single effective percentage arising out of them is in practice very slightly less than 15 per cent because renewal premiums under deferred annuities, to which item (ii)(b) and the percentage 4 apply, are insignificantly small in comparison with the renewal premiums under other policies to which item (vi) and the percentage 15 apply. Items (iii) and (iv) make a negligible contribution to the total of all the items (i) to (vi). Further the error involved in ignoring this contribution is in the direction opposite to that involved in assuming the two effective percentages as NBER and 15. Thus the whole scheme of limitation of expenses may, for all practical purposes, be summarised by saying that the total expenses are limited to (First Year Premium NBER) plus (Renewal Premium x 15 per cent).

Limit on total Expenses

4.4.3. It can be seen that what is limited under this scheme are the total expenses and not expenses under different groups of items of expenditure. Again, the prescribed limit is the arithmetical sum of certain percentages of different types of premiums or, where premiums are no longer payable, of sums assured or annuities paid. It must be clearly understood that each prescribed percentage does not in itself constitute a limit for the corresponding expenses. For instance, confining our attention to the summarised form of the Scheme, NBER multiplied by the first year premium is not by itself the limit for first year expenses, nor is 15 per cent multiplied by the renewal premium the limit for renewal expenses alone. It is only the *total* expenses that have been subjected to the ceiling, and limited to the aggregate of the different percentages of the different types of premiums or sums assured or annuities paid. In fact there is nothing like a statutory first year expense ratio or a statutory renewal expense ratio prescribed in Rule 17D. If one is to be precise, it cannot be said that Rule 17D has imposed a ceiling of 15 per cent on the RER.

4.4.4. But, the niceties of precise terminology are sometimes ignored in common parlance, and one can often hear it being said that the Corporation's renewal expense ratio is statutorily limited to 15 per cent. This description of the limitation can be easily understood in the light of the long legal standing of Rule 25(b), which introduced the idea of the RER as a standard of measurement and invested it with the aura of an almost infallible index. If we direct our attention to the summarised form of the scheme of limitation given at the end of para 4.4.2. of this chapter, we can see that the total expenses are practically limited to: (First Year Premium x NBER) plus (Renewal Premium x 15 per cent). Or, the difference, total expenses minus first year premium x NBER, is limited to renewal premium x 15 per cent. In other words, the former difference divided by the renewal premium is limited to 15 per cent. But this former difference divided by the renewal premium is the same as the RER under Rule 25(b). Thus the scheme came to be summarised and reduced to the convenient and simple statement that Rule 17D had prescribed a ceiling of 15 per cent for the RER. We doubt whether this convenient way of summarising the scheme could have ever come into vogue except in the context of Rule 25(b).

Defects of the Scheme

4.4.5. Leaving aside the popular descriptions of the Scheme that gained currency, it must be pointed out that the essence of the scheme was to limit total expenses to what is practically equal to the sum of (First Year Premium × NBER) plus (Renewal Premium × 15 per cent).

4.4.6. As has already been stated, the Rule does not imply that the first year expenses are restricted to the former part of this sum and the renewal expenses to the latter part, but that total expenses are restricted to the total of both the parts. If actual first year expenses form a smaller percentage of the first year premium than NBER, the saving under this item can be used to cover the excess under renewal expenses over 15 per cent of the renewal premium. The amount of the saving is clearly the first year premium multiplied by the excess of NBER over NBCR, since actual first year expenses are first year premiums multiplied by

NBCR. If it is assumed, for the sake of illustration, that NBER is equal to 85 per cent and NBCR is equal to 70 per cent, then this saving is 14 per cent of the first year premium. Thus the scheme of limitation would permit an excess in the renewal—expenses over 15 per cent of the renewal premiums up to 14 per cent of the first year premiums. In other words, an excess in the RCR over 15 per cent is allowed under this scheme provided it is less than 14 per cent of the ratio of the first year premium to the renewal premium. If this premium ratio increases, the scheme permits a further increase in either or both the cost ratios. For instance, if the NBER and NBCR are taken as 84 per cent and 70 per cent respectively, and if the premium ratio is 0.20, then the maximum permissible limit for the RCR is 17.80 per cent, *i.e.* greater than 15 per cent. Again if the premium ratio is somewhat larger, say, 0.22 and NBER and NBCR are unchanged at 84 per cent and 70 per cent respectively, then the maximum permissible limit for RCR increases still further from 17.80 per cent to 18.08 per cent; or again if the RCR remains unchanged at 17.80 per cent the scheme permits an increase in NBCR from 70 per cent upto 71.27 per cent. If instead of remaining unchanged, either cost ratio increases to a figure less than the maximum permissible limit for it, then the scheme permits a similar increase in the other cost ratio up to the *corresponding* extent. For instance, if NBCR increases to 71 per cent, i.e. to a figure less than the maximum permissible for it of 71.27 per cent, then the RCR may increase from 17.80 per cent but only upto 17.86 per cent. Thus the scheme implies that there is no limitation in *substance* on either the NBCR or the RCR. If only one of these is less than the prescribed percentage for it, viz., NBER or 15 per cent then the other may be greater than the corresponding prescribed percentage, and either or both may still further increase, provided there is a counter-balancing change in the premium ratio. This aspect of the scheme may result in making one unmindful of increases in either or both of the basic cost ratios until one reaches a situation in which one finds that each cost ratio has been higher than the corresponding prescribed percentage.

4.4.7. The following table gives the LIC's cost ratios (Cols.2 & 3) for the various accounting periods and the maximum permissible limits (Cols. 5 & 6) for each one of them on the assumption that the other remains unchanged. The LIC's cost ratios are revised cost ratios given in Table 2.2. of Chapter II.

TABLE 4·1

Year	Actual NBCR (Revised)	Value of RCR (Revised)	NBER	Maximum permissibl limit for NBCR	Maximum permissibl limit for RCR
(1)	(2)	(3)	(4)	(5)	(6)
1958	67·99	19·41	83·93	66·06	18·93
1959	65·77	18·39	85·50	73·28	20·47
1960	63·80	18·44	83·38	71·22	20·54
1961	63·40	18·24	84·58	72·79	20·82
1962-63	64·75	18·73	85·53	70·74	20·24
1963-64	62·82	18·11	84·19	72·43	20·65
1964-65	65·93	18·43	84·18	69·75	19·34
1965-66	66·30	18·69	83·74	67·61	18·99
1966-67	67·43	19·34	83·67	63·01	18·43
1967-68	66·71	19·34	83·25	62·44	18·45

4.4.8. From the above table it will be seen that the Corporation's RCR according to the budget form of analysis has always been higher than 15 per cent, and its NBCR has always been lower than the NBER (col. 5). But, except for the year 1968, each cost ratio has been less than the maximum permissible limit for it upto 1965-66, the relative increase in the first year premium being sufficient for the purpose during these years. Thus no transgression of the limits in Rule 17D took place during these years. But in 1966-67, the increase in the first year premium was not adequate for the purpose; and this led to a transgression of these limits.

4.4.9. It is sometimes argued that the proper method of examining the scheme of limitation in Rule 17D is to consider the ratio of the total actual expenses to the total permitted expenses and to see whether a rise or a fall in this ratios does not correctly indicate the position in respect of the basic cost ratios. It can however be seen that even this test reveals the major defect in the scheme. For instance, if NBCR, RCR and the ratio of the first year premium to the renewal premium increase from 66 per cent, 18 per cent and 0.20 to 67 per cent, 18.1 per cent and 0.22 respectively, NBER remaining unchanged at 84 per cent, the ratio of the actual expenses to the permitted expenses decreases from 98.11 per cent to 98.09 per cent. It is interesting to note that in this case even the RER decreases from 14.40 per cent to 14.36 per cent.

4.4.10. It can thus be seen that the scheme of Rule 17D suffers from the same defects that have been pointed out by us in the course of our evaluation of the RER as a measure of expenses. The same reasons that led us to the conclusion that we should recommend the discontinuance of the statutory status of the RER have therefore led us to conclude that we should recommend the replacement of the scheme in Rule 17D by a more appropriate and less defective scheme.

Procedure for fixing further limits, Before nationalisation

4.4.11. In addition to the limits prescribed in Rule 17D, Section 40B(2) provides for the prescription of further limits. In the days before nationalisation, these limits were to be determined by the Controller in consultation with the Executive Committee of the Life Insurance Council. This consultation was to take place before the 31st March of the year. The time limit for submitting the audited accounts to the Controller was the 30th of June or a still later date of the following year with the result that at the time the cnsultation took place no one was in a position to identify the exact percentage by which any one insurer had exceeded the limits prescribed in Rule 17D. Thus the consultation with the Executive Committee was based as far as possible on the merits of the situation obtaining during the previous year, particularly the factors that had affected the expenses. The Executive Committee was sufficiently representative of all groups of life insurers. Even so, there was no danger of the Committee fixing limits that favoured any particular group, since the Committee itself did not take any decisions, but only advised the Controller, and it was the duty of the Controller to determine the limits. Consultation with the Committee helped the Controller to be fully acquainted with the difficulties experienced by the insurers and the views they held about possible solutions. Thus it can be seen that the machinery or procedure provided for

in pre-nationalisation days was such as would enable objective and informed decisions to be reached on the extent to which the restrictions imposed by the statutory limits could be relaxed in any particular year for a group of insurers.

Present Position

4.4.12. After the establishment of the LIC, the procedure for determining the further limits has been changed. There is now no obligation cast on the Controller to consult anybody. Formerly consultation was obligatory and had to take place before the 31st of March. In fact the Controller has now taken the view that the law requires him to determine the further limits only if a transgression of the limits in Rule 17D has taken place, i.e. after he has received the accounts from the LIC. Leaving aside the question whether this view is legally valid, it is not clear why the further limits are required to be determined if the prescribed extent of relaxation is to be determined only after receiving the accounts from the LIC. At this stage the only question that can arise is whether the transgression, if any, of Rule 17D limits should be condoned, and a consideration of this question is obviously possible without the formal procedure for determining the limits. But the very fact that this formal procedure has been prescribed would suggest that the intention of the Parliament was to see that the further limits or permissible extent of relaxation should be prescribed every year irrespective of whether there is a transgression of the limits laid down in Rule 17D. It may be argued that since the LIC is now the only insurer there is hardly any point in prescribing the yearly limits of relaxation. But the fact that the LIC enjoys a monopoly of life insurance business should, in fact, be regarded as a valid reason for insisting on a clear and effective procedure for dealing with the transgression of the limits prescribed by Rule 17D. What has actualy happened however is that the Act failed to lay down a clear and effective procedure that would answer the needs of the altered circumstances, and it was found that the remnants of the old procedure made applicable to LIC could not be effectively followed by the Controller because of the intrinsically impracticable nature of what remained of the procedure that worked before nationalisation. *One such remnant is the proviso to Sec. 40B(2) and we therefore recommend that this proviso should cease to be applicable to the LIC.*

Procedure in case of contravention : Contravention by LIC

4.4.13. On paper the provisions of the law applicable in the case of a contravention of Section 40B(2) appear to be much stricter in the case of the LIC than what they were in the case of private insurers. In pre-nationalisation days there could be no recourse to Section 102 in regard to any infringement of Section 40B(2) because Section 102 was to be applied only to contraventions, in the case of which no specific procedures were otherwise provided in the Act. A procedure to deal with infringements of Section 40B(2) had already been provided under Section 64K and Rule 17G. Under this procedure it was even possible for an insurer to satisfy the Controller at the hearing given to him that there was sufficient reason for the infringement and, therefore, it should be condoned. It is only now in the case of the LIC that such a specified procedure is not available. Apparently, therefore, in the case of the LIC, if there is an infringement of Section 40B(2) there is no alternative but to recourse to Section 102. However, further consideration shows that this is not an

effective alternative. For whether any transgression of the limits under Rule 17D amounts to a contravention under Section 40B(2) can be determined only much later, after the limits of relaxation are determined, by which time, the expenses for the year in question have already been incurred. It is doubtful whether a contravention of this nature where the expenses have already been incurred can appropriately be dealt with under Sec. 102, and perhaps this was one of the reasons why an alternative procedure was prescribed in the case of private enterprise for a contravention of Sec. 40B(2). However, the position now is that if the LIC, in any one year, has transgressed the limits prescribed in Rule 17D or the limits of relaxation subsequently determined by the Controller, the Controller is left with no other alternative except taking legal action against the LIC under Section 102. This leads to an anomalous situation in which the Controller who is a limb of the Government has to take legal action against a Government Undertaking.

Action under Section 102 *undesirable*:

4.4.14. Assuming for the sake of argument that proceedings under Section 102 can be resorted to even in such a case and that they are successful, what would be the net effect of such an action? Penalising the individual officers of the Corporation will not only undermine the morale of the services but will also be against the accepted principles of democratic administration which hold that an officer cannot be penalised for a bona fide error of judgment. Resort to Section 102 does not therefore seem practicable in the case of a contravention of Section 40B(2) by the LIC.

Contraventions in the past:

4.4.15. In this connection it will be interesting to see how the contraventions of the Insurance Act on the part of the LIC that have so far taken place in the matter of expenses have been dealt with by the Controller. Section 40B(2) was made applicable to the LIC by a notification dated 23rd August, 1958. So the expenses for the period ending on 31st December, 1957, in which the RER was more than 15 per cent, were clearly beyond the scope of Section 40B(2). As regards 1958, in which year also the RER was more than 15 per cent and expenditure in excess of Rule 17D limits had been incurred, the Controller has informed us that the question of granting some relaxations was considered by his office but none were fixed as it was thought *inter-alia* that it may well be contended by the LIC that as the default relates to the year 1958 and as the notification in question which was issued in the latter half of the year does not appear to be retrospective in effect, expenses incurred during the entire year of account cannot be taken into consideration for examining compliance and the LIC could argue that as Section 40B speaks of expenses incurred in any calendar year and not during fractions of a year, there has been no contravention at all.

4.4.16. In fact, the LIC gave reasons why its RER was higher than 15 per cent in 1958 and requested the Controller to condone the excess. As for the subsequent years upto 1966-67, the Controller has held the view that since "no excess expenditure over the basic limits was disclosed,

the question of formulating any criteria for fixing relaxations has not arisen". In the year 1966-67 the RER was higher than 15 per cent and there was an excess of expenditure over the basic limits. The Controller has informed us that the position in regard to 1966-67 is under examination.

Controller's Powers in realtion to LIC; Late submission of Returns:

4.5.1. Apart from the question of contravention of Section 40B(2), we may examine whether there were any other contraventions and, if so, how they were dealt with. The returns of the valuation as at 31st December, 1957 were submitted to the Controller some time during 1959 or thereafter, i.e. at least about six months later than the period within which they had to be submitted under Section 15. This was a clear contravention of the Act, but nothing was done about it. The same thing happened in regard to the valuation as at 31st December, 1959. These illustrations are being cited not to argue that action should have been taken in these two instances, but to indicate how nationalisation has altered the relationship between the Controller and the insurer, and it is therefore necessary to think of other correctives than the kind of penal action that was visualised for private companies, since the relation between the Controller and the Corporation has now become the relation between the Government and a Public Undertaking.

LIC's Special position:

4.5.2. It should be borne in mind that the LIC is a Corporation established by a separate statute, the capital of which is subscribed entirely by the Government. The Government appoints the Board and the Chairman. It has a right to issue directives to the LIC on matters of policy involving public interest. Section 38 of the LIC Act provides that the Corporation cannot be placed in liquidation except by order of the Central Government. Even cancellation of the registration of the LIC, which is still theoretically possible for the Controller, would lead to a very awkward situation in which there will be no other insurance company in India to transact life insurance business. The reduction of contracts or reconstitution of the Corporation is also out of question as the sum assured and declared bonuses are guaranteed by the Government under Section 37 of the LIC Act.

Discussion in Parliament:

4.5.3. One very important difference between the relations of the Controller with private insurers on the one hand and the LIC on the other, is that the Controller was completely disinterested in what happened to a particular private insurer. If in terms of the Insurance Act he was required to take action against an insurer, it did not matter to him whether as a result of his action that insurer ceased to transact any more new business or whether he was wound up. After nationalisation, Government, and therefore, the Controller, who is a part of Government, are bound to ensure the continued functioning of the LIC. This difference makes it impossible for the Controller to resort to any penal action against the LIC. In this connection it will be useful to recall the following points that were made in the Parliament debate that preceded the adoption of the LIC Bill in 1956.

4.5.4. The original LIC Bill did not make Section 40B(2) of the Insurance Act applicable to the LIC. There was a demand from some members of Parliament that it should be made applicable. Subsequently, at the time of the clause by clause consideration of the Bill, Government agreed to include 'as a token of our (Government's) bona fides', Section 40B(2) among the sections that were to be made applicable to the Corporation with suitable modifications.

4.5.5. Earlier in the debate, while pointing out the futility of making Section 40B(2) applicable to the LIC, the then Finance Minister referred to the fact that, in the case of contravention of the Section, the usual remedies open to the Controller, were not available in the case of the Corporation. He said:

> "I do not know how he issues the notice to Government, the Minister of Finance or to the Corporation or what he does, or whether he starts any penal action and so on. These are matters which one must rely on Government to attend to in their own interest. As one Hon'ble Member said, this is a kind of challenge which Government has taken on and it would be for them to justify this momentous decision that they are asking the house to ratify. There will be many criteria by which their performance would be judged and if they are found wanting, the familiar consequences must follow. Therefore, I do not think that that kind of a situation can be met or could be improved upon by provision of a formal percentage for expenditure."
>
> (Page 9079—Lok Sabha Debate—9th May—30th May, 1956 Vol. 5 Part 2).

4.5.6. When an Hon. Member who participated in the debate contended that the Corporation was different from the Government, and, therefore, the Controller could issue a notice to the Corporation, the then Finance Minister said: "You may call it a Corporation but it is still owned by the Government." (ibid). He further remarked that it was the Government which was in the final analysis responsible for the proper functioning of the Corporation and the only sanction available in the matter of the Corporation's proper functioning is that of 'familiar consequences' if "they (Government) are found wanting". Finally he remarked in this connection that:

> "I hope Parliament will not insist on that kind of sanction that the Finance Minister may be sent to jail for 2 years or that the Corporation may be dissolved or may be transferred to somebody else. All these remedies are not available—such as are available today in respect of the individual units which are operating the life insurance business."
>
> (Page 9079—9080 of Lok Sabha Debate—1956 Vol. 5, Part 2).

Present role of the Controller :

4.5.7. It may be useful in this context to examine the role that the Controller in actual practice plays to-day vis-a-vis the LIC. He does not exercise direct control over the Corporation, except in very routine matters. He cannot possibly do this, as the experience of the last ten years has revealed. What is possible for him to do, and what should be his prescribed duty to do, is to function as an evaluating officer, who will continuously study the functioning of the Corporation in all its aspects and measure its achievements and failings in terms of the objectives of nationalisation. As the officer responsible for vigilance and evaluation, he should be charged with the duty to draw the Government's attention to the kind of directives that the Corporation may need from time to time. At present there is no permanent machinery to do this and this vaccum may very well be filled by the Controller.

New role of the Controller :

4.5.8. With reference to a contravention of Section 40B(2) itself, the difference between the two roles of the Controller can be illustrated as follows:

> Under the present role he has no power to intervene if the RER is increasing, but still less than 15 per cent, as happened with the Corporation during the years 1964-65 and 1965-66. But with a role reoriented as suggested above he would be constantly analysing the results of the working of the Corporation not only when an index of expenses like the RER is increasing but also when it is decreasing. For instance, even during the years in which such an index shows a decrease as the RER did in 1959, 1960, and 1961, the Controller would examine whether the decrease is the evidence of a stable trend of the kind that was anticipated at the time of nationalisation or only a temporary phase, and proceed to suggest remedial steps for Government's consideration. It is clear that the Controller might have been able to play such a constructive role if the conception of his role and responsibilities and the powers made available to him were in conformity with the requirements that arose in the altered conditions and relationships that resulted from nationalisation. *We, therefore, recommend that it should be the duty of the Controller of insurance to function as an evaluating officer who continuously studies the working of the LIC in all its aspects and assesses the economic efficiency of the undertaking and its achievements and failings in terms of the objectives of nationalisation. As the officer responsible for the vigilance and evaluation, he should be charged with the duty to draw the Government's attention to the kind of directives that the Corporation may need from time to time.*

Position in Foreign Countries :

4.6.1. The Committee has made efforts to acquaint itself with the situation that obtains in this field in other countries. The information that has become available to us relates only to the conditions and practices in the U.K. and the U.S.A.

4.6.2. In the U.K., as has already been stated, there are no limitations on the expenses.

4.6.3. In the U.S.A., the Armstrong Committee that enquired into the matter relating to life insurance business in the New York State, recommended (1905) that there should be a limitation on the amount that can be spent in securing new business as well as limitations on total expenses, and on the amount of new business itself. Section 213 of the present New York State Insurance Law prescribes separate limits for

(1) Total First Year field expenses;

(2) Total field expenses; and

(3) Total expenses.

4.6.4. The section clearly defines and enumerates the items that constitute the first year field expenses and total field expenses. The prescribed maximum limits are obtained by formulae that are based on the premium income and the sum assured under new and existing policies, annuities and insurances being treated separately.

4.6.5. Though only a few States in the U.S.A. have laws limiting expenses, most of the States have laws prescribing a minimum basis for valuing the life insurance contracts.

Alternative to Rule 17D:

4.7.1. The Committee has considered the following alternative methods that have been suggested for controlling and limiting expenses.

Loading in the premium: *Intrinsic Cost Ratio*:

4.7.2. It has been suggested by the All India Insurance Employees' Association that the expense loadings contained in the premium income of any year may be regarded as the maximum amount that can be spent as expenses of management, in the corresponding year. The ratio of expenses for the year to the provision made in the premiums for all policies in force during the year, (including first year's premium for new policies, renewal premiums for old policies) as well as provision for paid-up policies, has been described by the Association as the intrinsic Cost Ratio and they have suggested that this ratio should not exceed unity.

Procedure for calculation:

4.7.3. The office premiums charged by an insurer are based on certain assumptions regarding interest, mortality and expenses. Thus the premimums are calculated on the basis that the expenses of the insurer are likely to be a certain percentage of the total premium received, a certain percentage of the sum assured and/or premium received under new policies, and a certain percentage of the sum assured under policies in force. From these assumed percentages in the premiums, the total amount representing the recovery towards expenses in the total premiums received in any year can be found out, though with considerable amount of labour. What is suggested by the Association is that the amount of expense loadings in the total premium income of the insurer along with the provision for paid-up policies should be considered as the maximum amount that can be spent by the insurer towards expenses in that year.

4.7.4. The provision for expenses in respect of paid-up policies is usually made in the valuation, and probably the Association suggests that the rate of this provision as at the last preceding valuation may be applied to the paid-up business in force during the year, and thus the amount available for expenses on this account during the year may be worked out.

4.7.5. In support of their suggestion the Association has argued :

> "If this ratio is unity or 100 per cent, that means that the insurer is spending in the year exactly what it is expected to spend and gave the policyholders to understand by implication as being intended to be spent during the year. This is, therefore, an absolute standard."

Provision for fluctuations:

4.7.6. The provision for annual, apart from exclusively first year, expenses in the premiums is regarded as sufficient, on an average for all the policy years taken together. Thus it has to allow for minor fluctuations from year to year. It cannot therefore be argued that the insurer can safely spend up to this limit year after year. The insurer must manage as economically as possible from year to year, so that the savings made in favourable years may be available to be drawn upon in years of unfavourable experience.

4.7.7. Again, while fixing the premium basis, care would have been taken to see that there is some margin to provide for any unforseen adverse circumstances. This margin cannot be drawn upon every year, but should be preserved to become available in unforeseen adverse cimcumstances that may arise in certain years.

Effect of Valuation:

4.7.8. Further, the provision made in the premiums for expenses was regarded as sufficient at the time it was made. Subsequently, experience may reveal that the provision was more than sufficient or less than sufficient. This difference in the estimates for future expenses is ordinarily allowed in the valuation assumptions. In general, the premium basis becomes irrelevant as soon as a valuation is made, and whatever be the provision for expenses in the premiums, if the provision for expenses in the valuation basis is different, the addition to, or the deduction from the original provision for all the future years is capitalised and is either converted into an addition to the liability or thrown into surplus. It is thus the provision made for expenses at the time of the latest valuation that is relevant for any year, and not the provisions made at different times in the past when the premiums for the present business in force were quoted for the first time. Perhaps the supporters of the alternative under consideration here may, therefore, argue that the denominator of the intrinsic cost ratio may be taken as the provision made in the latest valuation instead of that in the premium. Even then this alternative cannot be accepted for reasons mentioned in the next paragraph.

4.7.9. Apart from the fact that this provision too is meant as an average provision for the entire future period for which the existing business will continue to be in force, another difficulty arises. Somethings this provision may be more than sufficient, the excess provision being

meant as a provision for future profits. Sometimes this may be less than sufficient, additional provision being assumed to have been made in the anticipated interest margin. Again it may happen that the exact quantum of the provision may not be ascertainable from the valuation basis. It may be mixed up indistinguishably with the provision for future profits. On account of these difficulties, even the substitution of the valuation basis for the premium basis in the working of this alternative does not make it any more acceptable.

Comparison of actual expenses with expected expenses: Actuarial Society's suggestion:

4.7.10. The alternative that the Actuarial Society of India has suggested is the following :

(A) Separate investment expenses from insurance expenses;

(B) Make a detailed expense investigation at regular periods, say once in five years, to arrive at a formula for expected first year expenses and expected Renewal Expenses in terms of sum assured, amounts of premiums and number of policies;

(C) Divide the actual expenses of any year into investment First Year and Renewal Expenses;

(D) Using the formula mentioned in (B), obtained the expected First Year and Renewal Expenses and work out the ratios of actual to expected in each case for each year;

(E) Account for the trend indicated by these ratios.

4.7.11. The implication of these suggestions is that the ratios in the formula referred to in Part B should be the limits for the corresponding ratios based on actual expenses.

4.7.12 It appears to us that this suggestion can provide the basis for a suitable alternative to Rule 17D. We are, therefore, examining in detail the various aspects of the procedure outlined by the Actuarial Society, pointing out the changes that will make the procedure more effective.

Investment Expenses:

4.7.13. Explaining Part A of the procedure, the Society has stated:

"There is fairly general agreement that certain expenses which are related to the investment activity of a life office, should not be considered as chargeable either to the 'initial' or 'renewal' expenses in arriving at expense ratios. Both from the point of view of correct expense analysis and correct appraisal of rates of returns on different types of investments it is desirable that the expenses related to different categories of investment should be debited to the corresponding investment income account and not treated as a part of the expenses of the management which are related to premium income in computation of expense ratios."

4.7.14. We agree that investment expenses should be debited to the income derived from interest and rent and not charged against the premiums as insurance expenses. We also agree that even under the broad head of investment expenses, an attempt should be made to allocate expenses (Including legal expenses, if any, connected with investments) between the different types of investments, so that it may be possible to calculate the true net yields arising from these different types. It is these net yields that are a correct index of the relative profitability of the different categories of assets. Depreciation in respect of assets, not earning any dividend, interest or rent, such as machinery, furniture etc. should be included in the expenses of management, while the depreciation in respect of the other assets should be debited to dividend, interest or rent. In calculating the net yields, it is the depreciated values of the assets that should be taken into account.

Allocation of Expenses:

4.7.15. The 'detailed investigation' referred to in part B above means an analysis of expenses into first year expenses and renewal expenses. Here we suggest that the method of this analysis, *i.e.*, division of items into those that are exclusively allocable to first year expenses and those that are exclusively related to renewal expenses, and the determination of the manner in which the remaining common items are allocable to first year and renewal expenses should be laid down in the form of *working rules*, so that the budgeted and actual expenses of any year can be similarly analysed without any further investigation. Referring to the principles of expense allocation, Mr. G.G. Fogg, Assistant Controller, The Travellers Insurance Co., U.S.A., has stated "The principle of direct relationship is important, in that the basis of allocation should bear as direct a relationship to the utilization of the expense by an activity, or department, as possible. Alternate methods of allocation should be studied with the thought of selecting the procedure that most closely accomplishes a factual distribution". In order that it may be possible to apply this test, it is very essential that the budgeted expenses and the actual expenses should be analysed accordingly to the method of allocation decided upon as a result of the detailed investigation and for this to be done as a matter of routine, the formulation of a set of working rules is essential.

4.7.16. The Society's suggestion further requires the expression of each one of these two types of expenses—first year and renewal—as a formula in terms of sums assured, premiums and number of policies, which is to be done presumably by a statistical method.

4.7.17. Here, we would suggest the following modifications :—

(i) There are certain types of policies, such as deferred annuities, immediate annuities, policies under which no further premiums are payable, group insurance and single premium and short term policies, under which expenses are incurred at a materially different rate from the one applicable to the major group formed by the remaining policies. At present none of these special types is large enough for first year and renewal expenses to be further allocated between them and the major group. If, however, at any time in the future any one of these types or any other such types introduced hereafter

becomes sufficiently large so that it is considered necessary to prepare a separate budget or to maintain a separate account for it, then it will become necessary to allocate first year and renewal expenses between such a type and the major group. If and when that has to be done, the expression of the allocated first year and renewal expenses for each such type in terms of separate formulae would be necessary. For the present, one formula for the first year expenses and one for the renewal expenses would be sufficient. But each of these formulae should make a separate allowance for each one of the existing special types.

(ii) Another modification we suggest is that unit of business be taken as the premium. We are aware that the premium cannot be taken as the unit for some special types of policies, such as annuities and paid up policies. The expenses under these policies are mostly renewal. In the case of such policies the formula for arriving at renewal expenses will have to allow for the expenses by taking some unit other than the premium, such as, in the case of annuity policies, the annuities paid or the number of annuity instalments and, in the case of paid up policies, the average sum assured, or the average number of policies. It is not our intention to suggest that the method of formulation adovated by the Actuarial Society in terms of sum assured, premiums and number need not be adopted. As accurate formulae as practicable should be obtained, and we are aware that such accurate formulae do require units of business such as sums assured and number of policies to be taken into account. What we want to suggest is that from the detailed formulae in terms of all the necessary units, formulae in terms of premiums alone, and, in cases where premiums are not available, in terms of other units, should be obtained, simply as a matter of practical convenience, using the current average premium per policy and the current average premium per thousand sum assured, these averages being also mentioned in the report on the investigation. We, therefore, suggest that the formula for the first year expenses may be somewhat on the following lines :

The first year expenses are, say, 5 per cent of the single premiums for immediate annuities *plus* 10 per cent of the first year premium under deferred annuities *plus* 4 per cent of the premiums under *newly* introduced group plans *plus* 75 per cent of the first year premiums under the major group, adjusted suitably to allow for short term policies.* The whole aim of the detailed investigation should be to arrive at accurate estimates of percentages like 5, 10, 4 etc. in the above illustration. The percentages applicable to the major group in the formulae for the first year and the renewal expenses should be called NBCR and RCR respectively. The percentages

*Such a suitable adjustment along the lines of the present rule 17D would be to ... the first year premium under the major group equal to the total of 1/12, 2/12, 3/12....... 12/12 of the first year premium under policies for which the premiums are payable for 1, 3.........12 or more years respectively.

applicable to the special types may be called special percentages. The report on the investgation should state the *working rules, NBCR and RCR* and the *special percentages* with a full description of the method by which they are arrived.

Limits for N.B.C.R. and R.C.R.:

4.7.18. We are aware that the evolution of an accurate method of analysis is primarily the duty of the insurer concerned and requires frequent review and revision. We are, therefore, of the opinion that the Corporation should make a periodical 'detailed investigation'. We suggest that such a detailed investigation should take place every five years, the first one being made as soon as possible. A report on the investigation should be forwarded to the Government. If, on an examination of the report, the Government comes to the conclusion that a change in the working rules, or the methods by which the special percentages are arrived at is necessary, they should give the necessary directions to the Corporation to carry out the changes and calculate the special percentages, N.B.C.R. and R.C.R. on the basis of the changed procedure. This is necessary in view of the ultimate responsibility of the Government to the Parliament and the people to see that the affairs of the Corporation are managed as economically as possible. On the basis of the special percentages, the N.B.C.R. and R.C.R. revealed by the report, the Government should prescribe the limits for expenses. These prescribed limits may be called prescribed special percentages, prescribed N.B.C.R. and prescribed R.C.R. The limits so prescribed would be valid for a period of five years from the time they are prescribed. New limits would be prescribed as soon as the results of the next periodical investigation are available.

4.7.19. We feel that even while the results of the first detailed investigation are awaited a start should be made immediately by giving statutory recogntion to one of the methods of analysis that are currently in use and by prescribing the limits for N.B.C.R. and R.C.R. in terms of that method. From this point of view we suggest that during the interim period the analysis of expenses should be made by the budget method adopted for 1967-68. We find that during 1967-68 the NBCR and RCR were 73:75 per cent and 19:45 per cent. (after making adjustments for the recent Government award in respect of Development Officers). Accordingly, we suggest that for the interim period the limits for the NBCR and the RCR may be fixed as 75 per cent and 20 per cent respectively.

Merits of the new Procedure :

4.7.20. It may be useful to point out the advantages of the procedure that we have outlined in the preceding paragraphs. Instead of fixed limits like 90 per cent and 15 per cent in the present rule 17D, more realistic limits for the N.B.C.R. and R.C.R. will be prescribed periodically. These limits will apply *separately* to first year expenses and renewal expenses, and therefore a method of allocation of expenses between first year and renewal will have to be used. At present such an allocation is not necessary for Rule 17D, because it is only the total expenses that are limited. This is the root cause of the defective nature of the present

scheme of limitation and the RER. Under the procedure that we have recommended, the special percentages too will be realistic, and open to revision in the light of experience.

Comparison of Actual with Prescribed :

4.7.21. The Society's suggestion in Part C requires that actual expenses should be divided into first year and renewal expenses, and the actual first year and renewal expenses should be compared with the expected expenses brought out by the formulae emerging from the detailed investigation (Part D). In line with our earlier proposals we suggest that both the budgeted expenses and the actual expenses should be so divided according to the approved working rules, and the budgeted and the actual NBCR and RCR should be worked out on the basis of the prescribed special percentages. The prescribed limits will apply to these actual NBCR and RCR. The differences between the budgeted NBCR and RCR and the actuals, considered in the context of unforeseen circumstances, will test the usefulness of the method of allocation adopted.

4.7.22. Though we have stated that the limits should separately apply to first year expenses and renewal expenses, we suggest that the Corporation should not be deemed to have transgressed the limits if its actual NBCR is within the prescribed limit and the actual *total* expenses are within the total permissible expenses worked out on the basis of the prescribed NBCR and RCR, even though the limit on the RCR might have been exceeded.

Variations to be explained :

4.7.23. From the analysed actual expenses of any year the itemwise contributions to NBCR and/or RCR should be worked out in a suitable form (analogous to Appendices 3 and 4),* so that it may be possible to explain in detail the causes of the variations in the NBCR and RCR that may occur from year to year. The circumstances leading to a rise or fall in itemwise ratios should be made known wherever possible. It may be necessary to refer to the change in the average premium per policy or average premium per thousand sum assured in explaining the variations in the NBCR and RCR. We feel that all this is in fact included in Part E of the procedure recommended by the Actuarial Society. The explanation of the variations should be given as a matter of routine, irrespective of whether the prescribed limits have been exceeded or not. *We, therefore, recommended that the present Rule 17D should cease to be applicable to the L.I.C., and instead, the following procedure should be prescribed*:

(a) *The revenue expenses of the Investment Department (including the Mortgage Department) and Building Department should not be included in the Expenses of Management, but should be debited to*

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*Some changes in the form of Appendix 3 would be necessary. Since NBCR is now calculated by using the adjusted first year premium applicable to the major group in the denominator, the same procedure will have to be adopted in calculating itemwise contributions to NBCR. Again, as the NBCR now refers to the major group but items of expenditure refer to all the policies, the total of itemwise contributions to NBCR will have to be multiplied by a certain factor in order to reconcile it with the actual NBCR. This factor is the ratio of the *actual* first year expenses considered allocable to the major group, on the basis of the prescribed special percentages, to the *total actual* first year expenses. A similar change is necessary as regards itemwise contributions to RCR.

income from interest and rents. The figures of the interest earned, dividend collectd and rent realised, and the respective deductions made from each of these should be shown separately in the annual revenue account.

(b) *The Corporation should appoint a Committee of Experts to make a detailed investigation into its expenses of management once in every five year. The first Committee of this kind should be appointed as soon as possible.*

(i) *This investigation should mention the different types of policies in respect of which there is reason to believe that expenses are incurred at a rate materially different from that broadly applicable to the major group of policies;*

(ii) *The investigation should evolve a set of working rules to allocate different items of expenditure, as accurately as practicable, between first year and renewal expenses;*

(iii) *The investigation should give formulae expressing, as closely as possible, first year expenses in a year as an aggregate of percentages of the first year premium received in that year under the major group and under the different types of policies referred to in (i) above; a similar formula should be given for renewal expenses;*

NOTE:—(1) The percentages in the formulae for the first year and the renewal expenses applicable to the major group are the N.B.C.R. and R.C.R. respectively. All other percentages applicable to the different types are referred to as special percentages.

(2) In the case of policies where no further premiums are payable, the corresponding (special) percentages may be of sum assured, number of policies or amount of annuities paid (instead of premiums).

(iv) *The Corporation should forward the report of this Committee of Experts, along with its own comments on the report, to the Government. Government may, if necessary, direct such modifications as it deems fit to be made in the set of working rules, special percentages, and, as a consequence, in the N.B.C.R. and the R.C.R.*

Government should prescribe appropriate limits separately for special percentages and N.B.C.R. and R.C.R. on the basis of the report of the Committee, revised in accordance with the modifications, if necessary.

These limits should be in force for a period of five years. They should be revised every five years on the basis of the five yearly investigations.

(v) *The actual expenses of every year should be analysed into first year and renewal expenses, and the actual N.B.C.R. and R.C.R. for the year should be calculated according to the approved set of working rules and the prescribed special percentages in respect of the different types of policies. The prescribed limits of the N.B.C.R. and R.C.R. should apply to these actual N.B.C.R. and R.C.R.*

(vi) *Every year, the Corporation should publish an analysis of its expenses during the year in accordance with what we have suggested in the preceding paragraph and explain the variations in the cost ratio from year to year with reference to the itemwise cost ratios, giving reasons for the increases or decreases in the latter.*

The approved set of working rules should be published along with the analysis for the year in which they are first adopted. Whenever the approved set of working rules is changed, in the first year in which a new set of rules is introduced, the analysis should be made both according to the old rules and the new rules.

(vii) *For the interim period, until decisions are taken by the Government on the first of the five-yearly investigation, the Committee recommends the following limits for the N.B.C.R. and the R.C.R. calculated according to the budget form of analysis for* 1967-68.

	N.B.C.R.	R.C.R.
Limits	75%	20%

These limits may be revised by the Government even during the interim period, in the light of any changes that may occur either as a result of the other recommendations of the Committee or otherwise.

(viii) *Though separate limits for the N.B.C.R. and the R.C.R. are prescribed in (iv) and (vii) of our recommendations, the Corporation should not be deemed to have transgressed the limits, if its N.B.C.R. is within the prescribed limit and the total expenses are within the total permissible expenses on the basis of the prescribed N.B.C.R. and R.C.R., even though the limit on the R.C.R. might have been exceeded. Section* 40(*B*) *of the Insurance Act may be suitably amended.*

Ensuring effectiveness of the scheme: Position before nationalisation:

4.8.1. We will now examine the steps that the Government can take to ensure that the L.I.C. adheres to the limits that may be prescribed for the N.B.C.R. and R.C.R. We shall briefly discuss the steps that were visualised in the pre-nationalisation days and examine whether these would be adequate or effective in the present situation. It has already been stated that in the case of private insurers these steps consisted of warnings, valuations, directions and winding up (paragraphs 4.2.5. to 4.2.7.). While examining the actual operation of these steps, the first thing that is required to be noted is the number of contraventions.

4.8.2. It is seen that 61 companies contravened Section 40B in 1951, 62 in 1952, 58 in 1953 and 91 in 1954; and out of them 21, 14 and 12 were administered warnings (para 4.2.5.) in respect of the contraventions in the years 1951, 1952 and 1953 respectively. In respect of the years 1951, 1952 and 1953, some relaxations were allowed by the Controller, but in respect of the year 1953 he decided against permitting any relaxation. That probably explains the large number of contraventions in 1954. No statistics are available about the warnings in respect of the large number of contraventions in 1954, nor about the contraventions in

the year 1955. Probably the nationalisation of life insurance on 19th January, 1956 made it unnecessary to take any steps in connection with the contraventions in 1954 and 1955. It can, therefore, be said that sufficient experience could not be gained of the working of the provisions of Section 64K or Rule 17G before nationalisation. In fact there was not even enough time for a complete application of all the steps provided for in these provisions. The effectiveness of the scheme under private enterprise can, therefore, be judged only by examining the possibilities that these provisions contain.

'Encroachment' not precisely defined:

4.8.3. It will be seen that a contravention of Section 40B did ultimately matter only if the valuation under Section 64K (para 4.2.7.) showed the Company to be insolvent or if it showed that there was an encroachment on the bonus loadings contained in the premiums due either partly or wholly to heavy expenses incurred by the insurer, after giving credit for any profits made in other directions.

4.8.4. In view of the fact that valuations were normally to be made at least once in every three years it appears that the insolvency of an insurer due to heavy expenses would not have remained undetected by these periodical valuations for a long enough time for two warnings to be issued and disregarded, and a special valuation ordered under Section 64K. It is, therefore, rather improbable that the insolvency of an insurer would be first detected only at a valuation under Section 64K. Further, insolvency disclosed even otherwise than under Section 64K could be dealt within the same manner as that under rule 17G.

4.8.5. As for the 'encroachment' referred to in rule 17G, it appears that it has not been defined with sufficient precision. For instance, it is not clear whether the phrase 'bonus loadings in the premiums' refers to the loadings that were provided at the time of constructing the rates of premiums. It is quite likely that premiums payable under all the policies in force at any one time may have been constructed at different times in the past and may, therefore, have different rates of bonus loadings provided in them. In such a case it becomes difficult to decide which bonus loadings are to be taken into account.

4.8.6. Further, if bonus loadings as provided in the premiums at the time the premiums were constructed are to be taken into account, then mortality and interest profit, which are presumably included in profits made in other directions, will also have to be taken in relation to the different mortality and interest bases used at different times while constructing the various rates at which premiums are payable under policies in force. A moment's consideration along these lines would show that the complications arising from the fact that premiums currently payable may have been constructed on different bases at different times make the scheme in Rule 17G anything but practicable.

4.8.7. Moreover, the premium bases cannot form an appropriate standard for comparison; for, once the valuation is made, if the valuation basis is different from the premium basis, the latter becomes irrelevant as

has already been pointed out in paragraph 4.7.8. If, on the other hand, bonus loading is interpreted to mean bonus loadings contained in the premiums not on the original premium basis, but on the latest valuation basis, the procedure would require a re-calculation of the bonus loading. Such a re-calculation may show a greater variety in bonus loadings than that in the original premium basis; and, therefore, the scheme would not be any the less impracticable.

4.8.8. Again the words "after giving credit for profits made in other directions" in Rule 17G seem to imply that a life insurer could contravene Section 40B, without attracting any penalty, provided there was sufficient interest and mortality profit. Whatever justification might have been there in pre-nationalisation days for giving such a long rope to an insurer it should now be the endeavour of all concerned to see that as much of the mortality and interest profit made by the LIC as possible is given back to the policyholders. We are not, therefore, convinced of the utility of the scheme in Rule 17G, under the present circumstances, quite apart from the considerable ambiguity that attaches to the scheme itself. What appears to be practicable now is to see whether a proper provision for future expenses is made in the valuation. It can also be examined how the actual surplus arising in any valuation compares with what is necessary for declaring bonuses at the rate estimated as maintainable in respect of the existing business at the previous valuation, and the causes for the difference between the actual and the necessary surpluses can be investigated. Such a procedure would show whether, and why, any encroachment has taken place on the provision estimated to be available for bonuses in the preceding valuation. It seems that an investigation of these points is so useful that it should be made at the time of each valuation, and not only when there is a contravention of the limits for expenses.

4.8.9. For the reasons that we have stated in the preceding paragraphs, we feel that the only enforcement methods corresponding to those in Section 64K and Rule 17G that are now practicable are measures to ensure that the periodical valuations of the LIC are done on proper lines and give us the necessary information. This is of course in addition to the suggestions that we have made that variations in the cost ratios from year to year should be explained (paragraph 4.7.28.) and the Controller be required to play constructive role that conforms to the needs of the altered conditions (paragraphs 4.5.7. and 4.5.8.).

LIC's Valuations:

Why Valuations:

4.9.1 The purpose of any scheme of limitation of expenses is to see that the financial position of the LIC continues to be sound, and it subserves the interests of the policyholders to the maximum possible extent. This purpose cannot be achieved merely by being on the right side of the prescribed limits. For instance, even if the actual expenses are within the prescribed limits, if the provision for expenses made in the valuation or in the current premium rates is inadequate, the LIC's financial position may still be unsound. Any scheme of limitation of expenses must therefore be

supported by a suitable machinery to ensure that the LIC's valuations continue to be proper in all respects and that its current premium rates continue to be adequate on the whole. The Insurance Act therefore had a procedure for ensuring the soundness of valuations. This laid down that the Controller would have the power to order re-valuations when necessary. These provisions have been made applicable to the LIC.

Committee of Actuaries:

4.9.2. The procedure that is currently being followed in connection with the valuations is that the Chief Actuary decides the basis of valuation after holding informal consultations with the other Executive Directors and the heads of departments. Informal consultation does not detract from the ultimate responsibility that rests solely with the Chief Actuary today. We have also been told that, at present, the valuation is placed before the Board for its approval, and the Board's approval of the valuation is taken to imply an approval of the basis as well. If approval of the basis of valuation is to have any meaning it must be accorded ***before,*** and not ***after,*** the valuation is completed. Again, the Board may not be the competent authority that can give a verdict on highly technical matters like the basis of a valuation.

4.9.3. The LIC is a national institution with a monopolistic character looking after the savings of millions of policyholders. Its valuation is, therefore, a matter of importance and concern to the whole country. The determination of the basis of valuation is, therefore, too great a responsibility for any single individual, howsoever, competent he may be. We, therefore, feel that it should be the collective judgment of a Committee of Actuaries, arrived at in a formal manner, that should determine the basis of valuation in the LIC. This Committee may be appointed by the Corporation.

4.9.4. We may refer here to paragraph 79 of the Report of the Estimates Committee submitted in 1960-61. The Committee has stated: "At present the work of actuarial valuation is carried out by the actuaries employed by the Corporation. An actuary should have a quasi-judicial status and in fairness to the policyholders be free from any control or influence of the Corporation or the Central Government. The Committee suggest that the Corporation may examine the desirability of associating one or more experienced independent actuaries in carrying out the valuation."

4.9.5. The Government has stated that their reply to the recommendation of the Estimates Committee was the same as that to another recommendation of that Committee about setting up a committee of experts consisting of the Controller of Insurance, representatives of the Corporation and independent actuaries to review the rates of premium offered by the Corporation. The reply of the Government to this other recommendation (1961) was that "This question can be taken up after some more experience of trends mentioned above" (regarding mortality, interest and expenses) "has been gained." We are not quite clear how this reply applies to the recommendations about associating one or two independent actuaries in a Committee for carrying out the valuation.

4 9.6. We have learnt that the Corporation recently appointed a Committee of Actuaries to review the premium structure of the Corporation; but it did not include any outside actuaries on it. We feel that there should be no bar on the association of outside actuaries in such Committees. On the other hand, there are advantages in associating outside actuaries in such work.

4.9.7. One argument that is often advanced against the inclusion of outside actuaries in such Committees is that outside actuaries have no knowledge of the internal working of the Corporation. But this cannot be regarded as an insuperable difficulty. Knowledge can be acquired. We must also point out that the suggestion is not that the Committee should consist exclusively of outside actuaries. A majority of the members of the Committee, as we have visualised it, will still be representatives of the Corporation. While, therefore, we are in favour of the association of outside actuaries, we feel that, for the present, it will be sufficient to leave it to the good sense of the Corporation and the Government to ensure such association. *We, therefore, recommend that a Committee of Actuaries appointed by the Corporation should decide the basis of Valuation to be adopted for each statutory valuation under Section 26 of the LIC Act.*

Other Investigations:

4.9.8. The valuation of the LIC discloses the effects of its mortality experience, investment policy and the degree of economy in its management. Most of the important policies that the LIC pursues influence one or the other of these aspects of its working. A valuation, therefore, provides an opportunity for a critical study of the LIC's working so far as it effects the three basic factors mentioned above, namely, mortality, interest and expenses. We would suggest that the following investigations should be made along with each valuation; an analysis of surplus, an estimate of the bonus-earning power of both the existing business and of the current with-profit endowment and whole life rates of premium, assuming, in the latter case, a distribution of the endowment and whole life new business over ages at entry, and terms as near as practicable to the current distribution. A similar investigation of without profit endowment and whole life rates of premium should also be made showing in a suitable form the margin in them under current conditions. Except the analysis of surplus, the other investigations should be made on the assumption that the current conditions regarding mortality, interest and expenses would continue in future. As near approximations as practicable to current conditions should be made. These investigations would provide an economic review of the LIC, and be useful in deciding how the surplus disclosed by the valuation should be distributed, and whether the current premium rates require any revision.

4.9.9. The investigations outlined in the preceding paragraph are of a highly technical nature, and are not likely to be of any use or interest to members of the public. Hence they need not be published as a part of the valuation report under Section 26 of the LIC Act, or as returns under Section 13 of the Insurance Act. However, the reports on these investigations should be filed separately with the Controller of Insurance so that

copies may be available to a member of the public on payment of the prescribed fee under Section 20(1) of the Insurance Act which applies to the Corporation. There are various other investigations like a detailed investigation of the lapse experience, an investigation into the incidence of surrenders or conversions into paid-up policies, an investigation into the mortality of under-average lives, which the LIC can usefully undertake. In this connection we would also suggest that the valuation report of the LIC should be much more informative than now, inviting a careful perusal not only by professional actuaries in India and abroad, but also by non-technical persons interested in the public affairs of the country.

4.9.10. Out of these investigations that we have suggested above, those that are of a purely statistical nature may be conceived, planned and carried out by the LIC on its own initiative. However, investigations which have a financial significance like the analysis of surplus, examination of the bonus-earning power and adequacy of the current with-profit and without-profit endowment and whole life rates, etc. should be treated on a different footing. It is desirable that the technical processes for these investigations should be devised or approved by the Committee of Actuaries suggested by us for the determination of the basis of valuation. As is the case with all scientific investigations the LIC should publish reports on all the investigations it undertakes. These reports should not be mere historical records of what has been done, but should also explain in detail the methodology adopted, so that the reader might understand, examine critically and realise the full significance of what is being done. Such reports will also be helpful when similar investigations are undertaken at a subsequent point of time.

With a view to providing an adequate procedure, suitable to the altered circumstances, for the purposes served by Section 64K and Rules 17G which formerly applied to private insurers, we recommend that:

(a) *Provision should be made for the following investigations to be made and reports on them to be separately filed with the Controller:*

(i) *analysis of surplus disclosed by the valuation:*

(ii) *estimate of the rate or rates of bonus that can be maintained in future in respect of the existing policies, on the basis of the reserves provided in the valuation and under existing conditions of mortality, interest and expenses;*

(iii) *estimate of the rate or rates of bonus that can be earned in respect of the new with-profit endowment assurance and whole life business at current rates of premium under existing conditions relating to mortality, interest, expenses and distribution of new business;*

(iv) *estimate of the margin available in the current without-profit rates of premium for endowment assurance and whole life policies under existing conditions relating to mortality, interest, expenses and distribution of new business.*

(b) *The Committee of Actuaries referred to in para 4.9.7. above should decide the technical procedure to be adopted for the investigations provided in (a) above and under rules 25(b)(i) and (ii).*

Expenses of other Investigations:

4.9.11. We are aware that our suggestions about the above incidental investigations mean an addition to expenses, and our terms of reference require that we make suggestions for reducing expenses. But we feel that the additional expenses involved in these investigations would be an investment resulting in a more efficient management of the LIC. Even so, we do recognise that, under the present circumstances, without the right climate and without a careful assessment of the usefulness of an investigation in comparison with the outlay required for it, it may not be advisable to undertake all the investigations that we have suggested. However, the financial investigations proposed by us, are intimately connected with matters of vital importance like distribution of surplus and revision of premium rates. We, therefore, feel that these financial investigations should, in any case, be carried out, and Government should, if necessary, make available to the Corporation the funds required for them out of the Government's share in the surplus disclosed by valuation.

Spread of Actuarial knowledge:

4.9.12. The recommendations contained in paragraph 4.9.10. will prove to be of greater benefit, if a larger number of people in the country are acquainted with the basic principles of actuarial science. With a greater spread of the knowledge of actuarial science, more people will be intelligently interested in the technical side of the working of the LIC, and, with sufficient data becoming available, there will be greater scope for the kind of free and informal discussion which is necessary for the improvement of matters in a democratic country.

CHAPTER V

BUDGET & BUDGETARY CONTROL

5.1.1. The Budget of an undertaking, as defined by the Institute of Cost and Works Accountants is "a financial and/or a quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during the period for the purpose of achieving a given objective". The Budget is thus a means to formulate the plans of the institution to achieve the desired goals contained in the plans with the most economic utilisation of resources and to ensure that the work progresses according to the plans for the year.

5.1.2. Budgets generally follow the accounting methods and administrative procedures which provide the guidelines for classifying the plans according to levels of responsibility and for translating activities into financial resultants. The process of Budgeting therefore implies that all the units from the lowest level to the highest level participate in its preparation.

5.1.3. No Budget will serve any purpose unless it is reviewed at regular intervals during the year and compared with actual performance. Without such a review, it is impossible to discover errors or shortfalls or take the remedial action that may be necessary to improve methods and control costs at every step.

5.2.1. The first Budget that the Corporation prepared was for the year 1959. At that time it was envisaged that budgets for each Branch Office should be prepared by the Branches and forwarded to the concerned Divisional Office for consolidation. As expenses under certain heads of the Branch Office were incurred by the Divisional Office in the interests of economy, the Divisional Offices experienced difficulties in apportioning such common expenditure. Another difficulty was that the Branches could not estimate their renewal premium income for their budgets because of the fact that premium was being collected through Cash Collection Centres in some places and the Salary Savings Scheme was being serviced from the Divisional Offices. In view of these difficulties, in practice, the Divisional Office itself has been preparing the budgets for all the Branches and the Divisional Office since about 1961. These Divisional budgets were then consolidated by the Zonal Offices. The Central Office consolidated the budget proposals received from the Zones and submitted a Budget (including in it the budget for the Central Office) to the Services and Budget Committee, the Executive Committee and the Board. We observe that the position has undergone a change in the case of the budgets for the year 1968-69. The method that has been followed in the latest year in regard to Branches is a return to the original procedure prescribed in 1959 for building up the budget from the Branch Office level and

consolidating these Branch budgets at the Divisional Office, the Divisional Budgets at the Zonal Office and ultimately the Zonal Budgets at the Central Office.

5.2.2. Apart from building up the budget at the various tiers of the organisation, separate budgets are also being prepared for the Publicity Department, Building Department and General Insurance Department of the Corporation (since 1965-66). The latest improvement in the manner of preparation of the budget has led to an increase in the number of heads of accounts and enabled many activities of the Corporation to be shown and dealt with separately. For example, the number of heads of accounts on the Expenditure Side has increased from 38 to 70 in the budget for 1968-69.

5.3. The two major heads of account on the income side of the budget of the L.I.C. relate to the first year premium income on an estimated target of new business and the estimated renewal premium income of the Corporation.

5.4. The general drill adopted at the various levels for fixing the annual business targets of the Corporation can be roughly outlined as follows:

The Branch Manager determines the target for the Branch Office in consultation with the Development Officers under him, taking into account the experience of the past, the future prospects and the economic trends in the area. Similarly the Divisional Manager fixes the Divisional target in consultation with the Branch Manager, either in a Conference or through personal discussions. The new business targets for the Zone are decided by the Zonal Manager on the basis of the Divisional targets submitted to him by the Divisions, either in a conference or as a result of personal discussions with the Divisional Managers. The targets forwarded by the Zonal Managers are studied at the Central Office and the final targets of the Corporation are generally determined in a Zonal Managers' Conference. The targets thus fixed at the Central Office are then broken into Zonal targets, Divisional targets and Branch targets by the respective authorities. It may be pointed out here that there have been many instances of the original proposals being changed and different target figures being finally determined by the Corporation.

5.5. From the statement that we give below it may be observed that the proposals of the Zonal Managers appear to have been accepted as the final target for the Corporation for 1960 and after a slight downward adjustment for 1961. Since 1962, however, the proposals of the Zonal Managers were revised and scaled down. It can be observed that the final targets fixed by the Corporation were lower than those proposed by the Zonal Managers. This tendency was probably the result of the repeated failure of the Corporation to reach the targets that it adopted in earlier years. The Zonal Managers took the view that the higher targets that they had proposed were only meant to be used for the purpose of motivation. It appears to us that the Branch Managers, Divisional Managers and the Zonal Managers were acting on two sets of targets, one for motivation

and the other as the real targets for achievement. Even so, we have to point out that the performance of the Corporation has fallen short of the budget targets.

TABLE 5.1

LIFE INSURANCE CORPORATION OF INDIA

Completed Business

(Amounts in '000s of Rupees)

	Total of Zonal Proposals	Final Estimate	Actual	Actual as a percentage of Final Estimate
1958	...@	...@	344,68,00	...
1959	...@	414,66,20	429,17,00	104
1960	532,58,75	532,58,75	497,54,00	93
1961	670,85,00	663,00,00	608,82,00	92
1962*	797,05,00	760,00,00	...	...
1962-63	...	875,00,00	745,96,00	85
1963-64	870,95,00	750,00,00	702,76,00	94
1964-65	902,30,00	808,16,00	701,08,00	87
1965-66	836,95,00	839,48,00	797,79,00	95
1966-67	872,75,00	850,00,00	770,27,00	91
1967-68	924,18,00	800,00,00	844,51,00	106
1968-69	917,15,00	900,00,00	N.A.	N.A.

@ The Corporation started preparing its Budget for the first time in 1959; hence these figures are not available.

* During 1962 the Accounting period was changed to the Financial Year, and the Zonal Proposal and the Final Estimate for 1962 were changed to the revised figures for the 15 months' period ending on 31-3-1963.

N.A. indicates NOT AVAILABLE.

5.6. The percentage of shortfall from the target varied from 5 per cent in 1965-66 to 15 per cent in 1962-63.

5.7. At the Board Meetings, when annual accounts and reports are considered, the Chairman of the Corporation generally comments on the new business performance of the year and indicates the reasons for

unsatisfactory performance, if any. The unsatisfactory performance of the Corporation from the year 1962-63 onwards has been attributed to the reasons that have been indicated below against each year:

Reasons given by the Corporation

Year	Percenage shortfall in New Business	
1962-63	15%	Chinese aggression.
1963-64	6%	Rise in cost of living, Compulsory Deposit Scheme, famine in some parts of the country and excess rainfall in other parts.
1964-65	13%	The discontentment prevalent among Class I & II Officers regarding their terms and conditions of service.
1965-66	5%	Fall in agricultural output, dislocation caused by Pakistani attacks.
1966-67	9%	Economic conditions, natural calamities like drought, famine, etc. and agitation by employees.

5.8. Having regard to the purpose of fixing new business targets and the conditions which determine the level of the new business production of the Corporation, the Corporation feels that the targets that it had fixed have not proved unrealistic. Nor does the Corporation feel that the present method of fixing targets needs to be modified to make targets more realistic.

5.9. The Corporation has also stated that the targets are fixed on an *ad hoc* basis, taking into consideration the actual achievement in the previous year and the need to increase business progressively. The prevailing economic conditions and the likely extent and effect of the efforts of the development personnel are also taken into account. A view is often expressed emphasising the need for a scientific estimate of the business potential of each area, and it is contended that realistic targets could not be fixed without such an estimate. It is true that the potential in the Country is very vast and is not likely to be exhausted for many years to come. But it has to be admitted that the potential varies from area to area, and even year to year because the potential that has to be estimated depends not only on the need for life cover but also the "savings" of the different strata of the population and the current and relative ability of life insurance to compete with other avenues of investment which attract "savings". It is therefore clear that realistic targets can be fixed only if a scientific estimate of potential is related to the available calibre of man-power and the techniques adopted or visualized for the development of new business. *We, therefore, recommend that the Corporation should devise methods for fixing business targets on a scientific basis and, if necessary, formulate these methods with the assistance and co-operation of agencies like institutions of research.*

First Year Premium Income :

5.10. In the past, the first year premium income seems to have been estimated from the estimates of completed business, by using an average premium per thousand Sum Assured based on past experience. But an improved method seems to have been adopted for the budget for the year 1967-68, whereby the first year premium income was estimated in two parts: (a) First Year Premium Income due in 1967-68 from business completed in 1966-67; (b) First Year Premium Income from the business to be completed in 1967-68. In respect of both these parts, the average figures relating to the corresponding completed new business were worked out for a few years in the past, and the final estimates for the year 1967-68 were based on the past experience and anticipated future trends. They also gave due consideration to several other factors relating to field organisation etc. which influenced the volume of new business and the first year premium income on such new business.

5.11. The totals of the Zonal estimates, final estimates and actuals of first year premium income shown in the following table indicate that the actual first year premium income was short of the budget figures for all years except 1963-64 and 1967-68, the variation ranging from —16 per cent to + 7 per cent.

TABLE 5.2

LIFE INSURANCE CORPORATION OF INDIA

First Year Premium

(Amounts in '000s of Rs.)

	Total of Zonal Proposals	Final Estimate	Actual	Actual as a percentage of Final Estimate
1958	...@	...@	13,65,58	...
1959	...@	16,79,69	17,67,80	105
1960	21,72,59	21,72,59	20,06,79	92
1961	27,69,56	27,34,44	23,07,67	84
1962-63*	...	34,89,32	30,69,30	88
1963-64	34,19,65	28,50,00	28,86,49	101
1964-65	36,42,76	32,32,64	29,40,87	91
1965-66	34,12,00	34,52,49	31,35,82	91
1966-67	36,03,96	34,85,00	32,03,32	92
1967-68	37,65,21	32,00,00	34,13,90	107
1968-69	36,03,70	35,36,30	N.A.	N.A.

@ The Corporation started preparing its Budget for the first time in 1959 ; hence these figures are not available.

* 15 months.

... NOT AVAILABLE.

Renewal Premium :

5.12. For the first time in 1967-68, the Corporation attempted to standardise the estimate of the renewal premium income. The instructions for preparing the budget estimates for 1967-68 included the following:

> "The renewal premium income of the Division may be estimated by taking into account the trend over the past few years of
>
> (a) the ratio of the increase in the renewal premium income in any year to the first year premium income of the previous year, and
>
> (b) the ratio of the renewal premium income of any year to the total of the renewal and the first year premium income of the preceding year."

A suitable figure for each of the two ratios was to be taken in the light of the trends disclosed. In the case (a), this figure was to be applied to the first year premium income of the previous year and the result was to be added to the renewal premium of the previous year. In the case (b), it was to be applied to the total of the first year premium and the renewal premium of the previous year. It is not clear from the instructions which of the two estimates of the renewal premium thus arrived at was to be taken as the final estimate or whether it was intended that both should be given due weight in making the final estimate.

5.13. The figures of estimated and actual renewal premium income from 1958 to 1967-68 shown in the following table indicate that the actual renewal premium fell short of the estimate only in 1962-63 (the shortfall being 6 per cent), and exceeded the estimate in all other accounting periods, the variation between the actual and estimate being not more than 9 per cent in any year. It would, thus, appear that the estimate of the renewal premium income has been fairly close to actual performance at least since 1963-64.

TABLE 5·3

LIFE INSURANCE CORPORATION OF INDIA

Renewal Premium

(Amounts in '000s of Rs.)

	Total of Zonal Proposals	Final Estimate	Actual	Actual as a percentage of Final Estimate
1958	...@	...@	59,04,96	...
1959	...@	63,02,45	66,43,14	106
1960	69,86,32	69,86,32	76,04,25	109
1961	84,46,87	84,46,87	88,60,07	105
1962-63*	...	126,19,73	118,92,78	94
1963-64	117,53,56	115,00,00	116,04,23	101
1964-65	126,06,10	130,00,00	131,00,52	101
1965-66	140,72,53	146,22,33	146,29,27	100
1966-67	161,67,29	161,50,00	162,64,17	101
1967-68	178,45,84	176,20,00	176,25,65	100
1968-69	194,82,91	194,82,91	N.A.	N.A.

@ The Corporation started preparing its budget for the first time in 1959 ; hence these figures are not available.

* 15 months.

N.A. indicates NOT AVAILABLE.

5.14. It may be relevant to point out here that lapse experience too has an impact on the First Year and Renewal Premium Income. The methods used for calculating the first year and the renewal premium for 1967-68, which have been described in paragraphs 5.10 and 5.12 above, allow for lapses in an indirect way. It appears that in preparing the budget for 1968-69, an attempt was made for the first time to estimate the first year premium in two separate parts, *viz.* (i) the first instalment of the first year's premium, and (ii) the first year renewal premium. The latter would be affected "by the volume of first year lapses". If actual first year premium income could also be shown in these two parts, that would give, over a period of years, a very useful indicator of lapses during the first policy year measured in terms of premiums.

Expenses : Commission, Medical Fees and Policy Stamps.

5.15.1. Estimates under these heads of expenses have been made for the 1967-68 Budget on the following lines:—

(1) First year as well as renewal commission are estimated at the same percentage as the actuals for 1965-66.

(2) Expenses for policy stamps are estimated at 40 Paise per Rs. 1,000 sum assured of completed business.

5.15.2. The Commission to Agents for premiums received and adjusted is payable at predetermined rates; medical fees are paid at fixed rates(the actual rate depending upon the sum assured or the nature of the report submitted); policy-stamps are to be affixed to the policy documents at the rate of 40 Paise per Rs. 1,000 sum assured or part thereof. Since the expenses under these heads are a fixed percentage of the actual business transacted, and are dependent entirely on the volume and proportion of business, they may be described as self-adjusting or self-regulating items, and it can be seen that the variations of actuals from the Budget Estimates for these items do not materially affect the final results as variations in the "fixed" and inelastic items of expenses do.

Salaries and other emoluments of various categories of staff :

5.15.3. The original intention was to give these estimates not only for various categories under various heads (*e.g.* Salary, D.A., C.A., Overtime, etc.) but also for the various departments.

5.15.4. Attempts made in 1959 to get a break-down of the expenses under salaries and other emoluments Department by Department, were abandoned in later years. Such a break-down of salaries, Departmentwise, will be of great help in making accurate estimates of the personnel-cost of new business and renewal business which plays a significant part in the new business cost ratio and renewal cost ratio. *We recommend that the Corporation should take steps to collect the necessary data on the departmentwise estimates and actuals for the expenses on the salaries and other emoluments paid to various categories of staff. The Inspection and Internal Audit Units should ensure that these data are collected and put to appropriate use.*

5.15.5. For the budget for 1967-68, the estimate under salaries has been made under two heads,—"Estimated expenses without any addition to present commitments" and "Proposals for additional expenditure". "Present commitments were to include the amounts payable to the staff on the rolls on 31st December, 1966 and others appointed and likely to join before 31st March, 1967 (including increments, etc. due as per rules)". "With regard to additional staff, the number of staff of various categories proposed to be recruited and the actual cost" that was to be "incurred in the financial year on account of the staff" was to be given "clearly indicating the steps by which the estimate of cost has been arrived at."

5.15.6. "Staff Salaries" is one single item of the expense budget which accounts for more than 50 per cent of the expenses. There is no doubt that the scrutiny of proposals for additional expenditure will be much more easy and thorough if the estimate itself distinguishes between "Present Commitments" and "Proposals for additional expenditure" at all offices, from the branch upwards, and in each of the Departments in these Offices.

Other items of expenditure :

5.15.7. With regard to other items of expenditure too, the instructions that are at present in force indicate that expenditure has to be shown in two parts—"present commitments" and "proposals for additional expenditure". The justification for every proposal for additional expenditure has to be stated in a note that has to be appended to every such proposal. These notes are required to specify the proposals which would require additional expenditure and also explain how the figure in the estimate has been arrived at. Further, proposals for additional expenditure have to be based on specifically anticipated expenditure like the likely increase in rent in certain centres or for certain rented premises, the number of additional telephones to be provided and the purpose for which such additions may be required, the number of additional motor cars for which expenses may be incurred, etc.

Building Department Revenue Expenditure :

5.15.8. Among the various items of expenditure budgeted for, the Building Department revenue expenditure requires special mention. Such an item does not appear in the published accounts. The Building Department is concerned with the maintenance and repairs of existing buildings, planning and construction of new buildings and the acquisition of new sites for new buildings. In consultation with the Controller of Insurance, the L.I.C. has adopted a method of accounting for the expenses of this Department. According to this method, part of the cost of this Department is debited to Rent Account, part capitalised and included in the cost of new buildings, and the balance shown under the head "Building Department—Revenue Expenditure". This balance is further apportioned among various basic items (*e.g.* Salary, Travelling Allowance, Postage, Stationery, etc.), and merged with expenses under the corresponding items for the other departments of the L.I.C. We understand that this is the reason why the item on "building department revenue expenditure" is not shown separately in the published accounts of the L.I.C.

5.15.9. The construction of new buildings is an important function of the Buildings Department. The figures relating to the major works

proposed, sanctioned (according to the budget) and the actual amount spent in each year are given below:

Major Works

(Lakhs of Rupees)

	Proposed	Sanctioned	Actual	Actual as percentage of sanctioned
1960	222·45	222·45	81·20	37
1961	214·66	214·66	143·88	67
1962-63*	266·45	266·45	126·64	48
1963-64	211·63	211·63	137·72	65
1964-65	276·24	276·24	150·75	55
1965-66	242·14	242·14	118·20	49
1966-67	204·07	204·07	180·44	60
1967-68	271·79	271·79	103·69	38
1968-69	231·40	204·34	N.A.	

* 15 months.

N.A. indicates NOT AVAILABLE.

5.15.10. It will be seen from the above table that the actuals of major works executed in any year never exceeded 67 per cent of the amount sanctioned. In fact in the year 1960 it was as low as 37 per cent of the sanctioned amount. When sanctions are given for large amounts for major works it is expected that the construction activity would be properly supervised, and the necessary staff for the purpose, employed. When the actual construction is substantially less than what was estimated, it turns out that the staff employed (based on the overestimated figures) is much in excess of the actual need.

5.15.11. We have already stated that one part of the expenses of the Building Department (a percentage of the cost of construction), is capitalised, and another part debited to rent account. If the staff and the expenses of the department have been commensurate with the construction and repair activity, only a small portion of the expenses would be in excess of what is capitalised and debited to rent, and would consequently emerge as revenue expenditure. The position is different in the L.I.C. Though, the estimate for revenue expenditure is low in the budget, the actual revenue

expenditure turns out to be considerably high, as can be seen from the following statement:—

(Thousands of Rupees)

	Proposed	Sanctioned	Actual	Actual as percentage of sanctioned
1958	..	..	..	..
1959	..	4,72	4,01	85
1960	..	..	6,46	..
1961	3,40	3,40	3,95	116
1962-63	6,45	6,45	9,32	144
1963-64	9,95	9,95	8,08	81
1964-65	8,69	8,69	10,59	122
1665-66	10,50	10,50	17,74	169
1966-67	16,10	16,10	21,06	131
1967-68	19,00	19,00	25,36	133
1968-69	16,73	16,73	N.A.	

N.A. indicates NOT AVAILABLE.

We, therefore, recommend that the budget of the Building Department should be more carefully scrutinised at the stage of formulation with a view to ensuring that actuals do not vary unreasonably from the estimates included in the sanctioned budget. The Corporation should also take steps to ascertain the extent of surplus staff in the Department and ensure that the staff strength at various levels in the Department does not exceed what the work-load warrants.

Separation of Insurance and Investment Budget:

5.16. We have already stated earlier that a part of the Revenue Expenditure of the Building Department is included in the various sub-heads (Salary, Rent, Stationery, etc.) in the revenue account of the L.I.C. The Investment activities of the Corporation have to be distinguished from its insurance activities. Yet, it is surprising to note that the Corporation has not been maintaining separate accounts for the expenses of these two. The Committee, therefore, regrets that, in the absence of these figures, it could not study the expense-level of the Investment Department. *We, therefore, recommend that the income from investment activities should be shown net of expenses, and not as gross income as is being shown in the income side of the Revenue Account today. In the same way the expenses of this Department should be clearly shown on the expenditure side of the*

Accounts of the Department. We also recommend that the budget of the Corporation should be prepared in three parts: "Life Insurance, General Insurance and Investment (including Building and Mortgage Department)."

Adoption of Budget:

5.17.1. We have no doubt that the Budget of an Undertaking like the Corporation has to be built up from the lowest administrative unit. There are incomes and expenditure at the branch level. These have to be estimated and woven into the form of a budget. The Branch budgets can then be integrated at the Divisional levels. But unless the exercise of budgeting takes place from even the lowest administrative unit, there will be no budget consciousness and no cost consciousness at the Branch level. It is idle to expect the Corporation as a whole to function with a high level of economy and cost consciousness, if the constituent units of the Corporation which actually canvass the income and incur the expenditure do not have the requisite degree of cost and economy consciousness. We are convinced that this requirement cannot be met without introducing full-fledged budgeting at the branch level. Our enquiries revealed that there is no uniform practice or clear understanding of this position today. *We, therefore, recommend that the Corporation take immediate steps to introduce a system of full-fledged budgeting at the Branch Level so that the Branch budgets can provide the basis for integrated higher level budgets and expenditure control and evaluation at all levels.*

5.17.2. As we have already pointed out, the procedure that is being followed today is that the Central Office revises and integrates the budgets received from the Zonal Offices, and then submits the integrated budget along with explanatory notes, etc. to the Joint Meeting of the Services and Budget Committee and the Executive Committee. The budget along with the notes and the observations of Services & Budget Committee and Executive Committee is then submitted to the Board of the Corporation for consideration and adoption. (Sometimes the Board is also given a resume of the discussions at the Joint Committee Meeting.) We have observed that quite a few suggestions were made by Members in the course of these discussions at the Joint Meeting of the Services and Budget Committee and the Executive Committee and at the Meetings of the Board. We were, therefore, interested to know how the Corporation dealt with these suggestions that the Members of the Board made in relation to the budget. We must say that we were deeply disappointed to learn from the Corporation that "whilst resolutions (of the Board and other Committees) were formally considered, and implemented, suggestions were not so considered."

5.17.3. We may point out here that some of the important suggestions that Members made related to the following topics:—

(1) Examination of the Renewal Expense Ratio according to which 90 per cent of the first year premium is allowed as cost of new business during the year and the possible adoption of a more realistic approach by allowing say, 60 per cent to 65 per cent instead of 90 per cent towards cost of new business.

(2) Measures for increasing business in rural and urban areas.

(3) Reduction of the rates of commission for agents on the ground that canvassing has become easier with the elimination of competition among different companies, insurance-mindedness has increased among the public and national income too has increased.

(4) A progressive reduction in the number of Development Officers with a corresponding increase in the number of agents.

(5) The possibility of making greater use of post offices for the collection of premiums.

5.17.4. We regret that the Corporation did not give due importance to these and other suggestions that members of the Board made from time to time. Even if the suggestions were finally found to be unacceptable or unworkable, an earnest examination of the suggestions would have set in motion processes of thought on alternative procedure and methods of working. In our view, such an exercise is essential in any Undertaking. *We, therefore, recommend that all suggestions made at the Meetings of the Committees and/or the Board should be examined by the Corporation and appropriate notes on the results of the study should be put up to the concerned Committee or the Board alongwith any observations that the Management would like to make on the suggestion.*

Budgetary Review :

5.18. If budgetary control is to be effective, there should be periodical reviews of performance as compared with the budget and an analysis of variations with a view to improving methods of estimating and controlling expenditure. Reviews comparing performance with the budget were placed before the Board twice in 1965 and once in 1967. From 1963-64 and thereafter statements reviewing the budget with reference to actual experience have been placed before the Board only with the audited accounts for the year. It appears from this that the Corporation is not adopting any uniform procedure for conducting periodic reviews of expenditure and income against the background of the Budget estimates. Even the few reviews that were made dealt with the variations but made no attempt to find out the causes for the variations. The budget note for 1968-69, stated that the Corporation had decided "to introduce a system of control of all expenditure in relation to budget sanction and also a system of monthly appraisal of the actual performance of these Units." The need for such a review cannot be over emphasized. During the course of such a review, the Management becomes aware of the progression of expenditure and this enables the Management to take remedial action before the year has ended and matters are beyond repair. *We would, strongly recommend that the Corporation should pursue this proposal and institute a regular system of monthly review of performance with the budget. These reviews, during the currency of the budget as well as after the closing of accounts, should also go into the reasons for variations between Actuals and Estimates and pin-point the measures that can be taken to improve the methods of budgeting.*

Budgetary Control :

5.19.1. In insurance business, the budget is more a budget of expenses to facilitate control of expenditure. We have already pointed out that there are items of expenditure which are directly linked with premium income and/or volume of business, namely, the first year's commission,

Bonus commission, and renewal commission, medical fees, policy stamps, etc. Expenses under these heads accounted for about 40 per cent of the total expenditure in 1959. The percentage of expenditure under these items to the total expenses has been decreasing gradually, and stood at about 33 per cent for the year 1967-68. These items of expense, depending as they do on income, should be considered as self-adjusting or self-regulatory. If the actual new business completion in any year is more than budgeted for, the actual expenses under these heads will naturally be more than the budgeted amount. However, it can be safely assumed that they will maintain, by and large, a stable relationship to the premium income. In view of the self-adjusting nature of these expenses, not much of control is necessary in regard to these items.

5.19.2. We may point out here to the latest position of the various groups of expenses of the L.I.C. The total expenses of management of life business for the year 1967-68 amounted to Rs. 58·61 Crores. Agency commission accounted for Rs. 18·05 Crores (*i.e.* 30·8 per cent) Medical Fees, Policy Stamps and other self-adjusting expenses amounted to Rs. 1·28 Crores (*i.e.* 2·2 per cent). Thus, as we have already explained, budgetary control is automatic, in respect of 33 per cent of the total expenses. Of the balance, the largest item is under the head "Salaries and other emoluments", amounting to Rs. 31·5 Crores (53·7 per cent). This includes the salaries of Development Officers whose salaries had some relation to the premium income procured through them till the Corporation decided to give automatic increments to the Development Officers. The expenditure under "Salaries and other emoluments" will have to be examined from two aspects, (1) the scales of pay and other emoluments payable to various categories of the personnel of the Corporation, and (2) the justification for the number of personnel in the various departments and offices of the Corporation. The scales of pay and other emoluments that are being paid today, are regulated by the agreements that the Corporation has entered into with various staff and Officers' Associations. They may not, therefore, be amenable to direct control. Once an agreement is entered into with the officers or staff Associations, nothing can be done to change them. To this extent it may, therefore, be said that "Salary Cost" is outside the scope of control. It is precisely because of this rigidity that great attention should be paid to the second aspect, namely, the need to submit the present staffing pattern at the various departments and the offices of the Corporation to a close scrutiny. It is not only a question of maintaining productivity but also of choosing the most suitable personnel for the various Departments and exercising strict control over productivity and strength in these departments. For example, let us take the Central Office, which is purely a "policy" making office. The nature of the work that is carried on at the Central Office does not depend upon the growth of business or increase in the number of policies. Consequently, increase in business or policies need not lead to any increase in the "Personnel" strength or changes in the cadre of officers in the Central Office. On the other hand, one might have expected a reduction after the 'teething period' that extended upto 1958 came to an end. A study of these aspects of staffing patterns could be made from the supplementary data about man-power that should accompany statements on budget requirements.

5.19.3. Barring the expenses under the head "salaries and other emoluments", other heads of expenses amounted to Rs. 7·8 Crores (13·3 per cent of the total expenses for the year 1967-68). These expenses

are under several heads, the maximum expenses on any one head not exceeding Rs. 2 Crores. One should not be complacent and conclude that there is no scope for reduction under these items because they happen to be under two Crores under each head. On the other hand, it appears to us that most of these items permit wastage and consequently require greater control and economy. The budget is one of the most effective instruments for exercising this control and economy.

Budget Form :

5.20.1. The budget should serve essentially as a means to achieve a goal that has already been determined on the basis of the estimate of targets and resources, and at the same time serve as an instrument for the control of expenses. The preparation of such a budget requires the collection of data from the lowest level: (in the case of the Corporation from the Branch Office level). Such an annual exercise could be put to the maximum benefit, if, along with the data essential for the primary purpose of the budget, additional information could be collected from the same sources to serve other management purposes. While the primary material is intended to enable a realistic estimate for periodical review and control of expenses, according to area, office and function, the additional material should enable a

(a) review and formulation of personnel policies including the "staffing" patterns of offices and their relation to cost and efficiency;

(b) Study of regional disparities in performance, results and costs and in the adoption of remedial measures;

(c) continuous study of inter-departmental relations and the development of maximum co-ordination of effort at all levels of administration;

(d) continuous study of the cost of new business, cost of renewal business and the other activities at the various "tiers" of the organisation with a view to eliminating avoidable duplication of efforts and costs.

5.20.2. We have no doubt that the data and studies that we have referred to will be of immense help to the Committee of Experts that we have recommended for the five yearly investigations into the expenses of the Corporation (Chapter IV). *We, therefore, recommend that the budget form should be suitably revised, and the Branches required to furnish the additional data that we have referred to in the preceding paragraph as Supplementary Statements appended to the Budget form. We believe that the data so collected and made available in the Budget form and the Supplementary Statements will together provide the Management with the information and tools it requires for the purposes of budgeting, budget review, cost control and efficiency control.*

CHAPTER VI

DEVELOPMENT OF NEW BUSINESS

Objective of Nationalisation:

6.1. One of the objectives in nationalising the life insurance industry in India was to spread life insurance business 'much more widely and in particular, to rural areas'. In examining how far this objective has been fulfilled, we shall first examine whether life insurance has spread "much more widely" all over the country, and then, examine whether business in the rural areas has registered the expected growth.

Comparison between pre-Nationalisation and post-nationalisation periods:

6.2.1. The Corporation has now been in existence for more than twelve years, and therefore it is the growth in business during a 12-year period that has to be studied. One of the ways in which the performance of the LIC has often been judged is by comparing it with the performance of the private companies that functioned before nationalisation. We may therefore take a 12-year pre-nationalisation period (1-1-1944 to 31-12-1955) and compare it with the performance of the LIC during the last 12 years.

6.2.2. The following table shows the new business completed in, and the total business in force at the end of, different years from 1944 to 1955 under private enterprise, and from 1956 to 1967-68 under the LIC :—

TABLE 6·1

(In Crores of Rs.)

Year	Total New Business (In Crores of Rupees)	Increase over Previous Year %	Total Sum Assured and Bonus in force at the end of the year (in Crores of Rs.)	Increase over the previous year-end %
(1)	(2)	(3)	(4)	(5)
1943	..	..	392	..
1944	111·4	..	470	20

(1)	(2)	(3)	(4)	(5)
1945	139·6	25	574	22
1946	159·0	14	671	17
1947	144·9	—9	727	8
1948	142·8	—1	772	6
1949	151·5	6	830	8
1950	148·1	—2	840	1
1951	156·1	5	926	10
1952	159·3	2	995	7
1953	170·9	7	1047	5
1954	255·2	49	1177	12
1955	260·8	2	1220	4
1956	200·3	—23	N.A.	..
1957	283·1	41	1473	21 (Increase over 1955)
1958	344·7	22	1682	14
1959	429·2	25	1958	16
1960	497·5	16	2285	17
1961	608·8	22	2738	20
1962-63	596·8**	—2	3165	16
1963-64	702·8	18	3571	13
1964-65	701·1 (slight decrease)	0	3878	9
1965-66	797·8	14	4394	13
1966-67	770·3	—3	4724	8
1967-68	844·5	10	5240	11

* 15 Months.

** 12 Months.

The Life Insurance Corporation replaced the Indian Insurers, both as regards their Indian business and foreign business. Provident Societies working in India, and foreign insurers as regards their Indian business only. Therefore, the figures for years upto, and including 1955 are given in respect of the *entire* business of Indian insurers, including "out of India business", provident societies' business and Indian Business of foreign insurers, all taken together. Thus these figures exactly correspond, in respect of extent of coverage, to the L.I.C.'s business after 1956.

The figures for 1944-47 in the above table are exclusive of the figures for concerns that ceased to function in India after Partition (1947).

New Business:

6.2.3. (i) The new business of private insurers increased from Rs 111.4 crores in 1944 to Rs. 260.8 crores in 1955, *i.e.*, by about 134 per cent. Due to the unsettled conditions that followed immediately after nationalisation, new business stumped substantially during 1956, the decrease being from Rs. 260.8 crores in 1955 to Rs. 200.3 crores, *i.e.*, about 23 per cent. If therefore the extent of the increase in new business from the year 1956 to the year 1967-68 is taken for comparison with the period from 1944 to 1955, it may give an artificially favourable result for the Corporation. We may, therefore, take the new business increase from 1955 to 1966-67 as an appropriate standard for comparing the Corporation's performance with the private insurers' performance during the period from 1944 to 1955. We can then see that the L.I.C., increased the latest, and also the highest, figure of Rs. 260.8 crores for private insurers (1955) to Rs. 770.3 crores in 1966-67, the second highest figure for the Corporation till then. This increase from Rs. 260.8 crores to Rs. 770.3 crores works out to about 195 per cent, as against 134 per cent during the period from 1944 to 1955.

(ii) The new business figure over the 6-year period from 1946-52 showed practically no increase, it being about Rs. 159 crores both in 1946 and 1952. Nor did it reach any higher level during the intervening period. It was during the period from 1952 to 1955 that the new business figure showed the best performance of private insurers. From Rs. 159.3 crores in 1952 it increased to Rs. 260.8 crores in 1955, *i.e.* by about 64 per cent. As against this, during a similar 3-year period of the Corporation's best performance (1958-61), the new business figure increased from Rs. 344.7 crores to Rs. 608.8 crores, *i.e.*, by about 77 per cent.

(iii) Again, if we take the whole period from 1944 to 1955 it is seen that the average rate of increase in yearly new business was about 9 per cent. The similar average rate for the Corporation from 1955 to either 1966-67 or 1967-68 was about 12 per cent. During the years of the best performance of private insurers (1952-55), the average rate of increase in yearly new business was 19 per cent., whereas during the similar period for the L.I.C., (1958-61) it was 21 per cent. In this connection it should further be noted that there was a substantial reduction in the premiums during 1953-54, which resulted in an artificial spurt in new business in 1954, whereas there was no such reduction in the premium rates during 1958-61.

Business in force:

6.2.4. It can be argued that it is not the quantity of business but the quality as reflected in the amount of business in force that is material. It is for this reason that the figures of total sums assured and bonuses in force at the end of the year are given in Column (4) of Table 6.1. The Table shows that the Corporation increased the business in force from Rs. 1220 crores on 31-12-1955 to Rs. 5240 crores on 31-3-1968, *i.e.*, by 330 per cent. As against this, the business in force under private enterprise increased from Rs. 392 crores on 31-12-1943 to Rs. 1220 crores on 31-12-1955, *i.e.,* about 211 per cent. Even allowing for the fact that the latter period is only 12 years, whereas the former period covers 12¼ years, it is clear that the rate of growth in the Corporation's business in force is larger than that in the pre-nationalisation days. The average rate of increase in the year end business in force during the period from 31-12-1943 to 31-12-1955 was 10 per cent., whereas the rate was 13 per cent during the period from 31-12-1955 to 31-3-1968. It can, therefore, be said that qualitatively too the Corporation's busines was better than that of the private insurers.

Proportion of Premium to Savings:

6.2.5. It is argued, and quite rightly, that without taking into account the change in economic conditions, it is not correct to compare the progress during the pre-nationalisation period with that in the post nationalisation period. A suitable indicator from this point of view is the proportion of the premium income to the individual savings during the same period. It is preferable to take individual savings for this purpose, since total internal *i.e.*, domestic savings include Government and Corporate savings, and the premiums are paid mostly from individual savings, *i.e.,* the householder's savings. The figures for individual net savings are available for the period from 1950-51 to 1964-65. It is seen from these figures that the proportion of premium income to individual savings was between 8.10 per cent to 8.20 per cent for the years 1950 to 1955, both inclusive. This was the period during which insurance was with private insurers. After nationalisation, during the period from 1-1-1956 to 31-3-1965, it is found that this proportion was 10.29 per cent. Thus, there is reason to conclude that the Corporation has done appreciably better than private enterprise, even in mobilising the savings of the community.

Number of Policies:

6.2.6. (i) The growth in the number of policy-holders is another standard by which performance in different periods can be compared. There is, however, one difficulty in applying this standard. It is not easy to get the exact number of policy-holders at any one time, since the same life may be assured under more than one policy. The number of policies is, therefore, always larger than the number of lives assured. However, in the absence of precise information on the number of policy-holders, it

may be reasonable to assume that the average number of policies per life generally remains unchanged. The following table gives the number of policies on 31-12-1943, 31-12-1955, 31-3-1963 and 31-3-1968 :—

Date	Number of Policies (in Lakhs)
31-12-1943	19·30
31-12-1955	47·92
31-3-1963	94·93
31-3-1968	127·59

It will be seen from this table that the increase in the number of policies between 31-12-1943 and 31-12-1955 from 19.30 lakhs to 47.92 lakhs is about 148 per cent., whereas the increase between 31-12-1955 to 31-3-1968 from 47.92 lakhs to 127.59 lakhs is about 166 per cent. Allowing for the slight difference of ¼th of a year between the two periods, the average annual increase works out to 2.38 lakhs policies during 1943—55 and to 6.50 lakhs policies during 1956—68. In other words, for each increase of 3 policies during the period prior to 31-12-1955, there has been an increase of a little over 8 policies after 31-12-1955.

(ii) The growth in population is a relevant factor that cannot be ignored while applying this standard. According to the estimates presently available, the increase in the population during the period of 12¼ years ending on 31-3-1968 has been about double the increase during the preceding, 12-year period. The increase in the number of policies during the latter period is however more than 2¾ times the similar increase in the former period. Thus even in terms of the number of policies in force the Corporation's performance has been better than that of the private insurers.

6.2.7. The comparative figures in paragraphs 6.2.3. to 6.2.6. show that the Corporation has spread insurance more widely than in 1956. It is often pointed out that the Corporation has failed to reach the quantified objective that it is said to have set before itself in 1956. We may here refer to a speech that the then Finance Minister made in Parliament, in 1956. He said :—

> "It has been claimed on behalf of private enterprise that it was confident of increasing the total life business in force from a little over Rs. 1200 crores to Rs. 8000 crores and the *per capita* insurance from Rs. 25 to Rs. 200 per head in course of the next 10 years. While I have very little doubt that the nationalised life insurance will be able not only to achieve it but exceed it . . . ."

During the period of about 12 years from 1956 to 31-3-1968, the Corporation has been able to increase its business in force only up to Rs. 5240 crores, giving a *per capita* insurance that approximately ranges between Rs. 100 to 110. A comparison of these figures with Rs. 8000 crores and Rs. 200 respectively does show that the quantified objective has not been achieved. However, it may be said that the figures of Rs. 8000 crores and Rs. 200 were not obtained after any reasoned estimate on the part of Government; they were cited as attainable within 10 years by private enterprise, and the Minister seems to have responded by observing that a national Corporation could in any case be expected to do better than what the uncoordinated efforts of private insurers might achieve. It is difficult to say that this comparative expectation has not been fulfilled. We cannot say what the private insurers might have achieved in these 12 years. At best we can make guesses. However, if the performance of these insurers and the conditions prevailing after nationalisation are any index, it appears to us that there is no reason to believe that the private insurers would have done much better than the Corporation.

6.2.8. It has to be borne in mind that a comparison by more percentage increases can sometimes be misleading. For instance, an increase of 14 per cent in the annual new business in 1946 means an increase in absolute figures of only Rs. 19.4 crores, from Rs. 139.6 crores in 1945 to Rs. 159·0 crores in 1946 (*see* table in para 6.2.2.). The same percentage increase of 14 per cent in the same item in 1965-66 means an increase in absolute terms of as much as Rs. 96.7 crores, from Rs. 701.1 crores in 1964-65 to Rs. 797:8 crores in 1965-66. Thus, in 1965-66 it required an increase in new business of about 5 times the increase in 1946 to attain the same percentage increase. If the increase in 1965-66 had been even as high as 4 times, instead of 5, the percentage increase would still have been less than that in 1946. Such a lower percentage by itself would give an entirely different picture from that presented by the figure of "4 times". When this aspect of a percentage increase is borne in mind, the better performance of the Corporation is further highlighted, since by any of the standards of comparison used in the earlier paragraphs, the figures for the Corporation are higher, and yet, in the case of each standard, the percentage increases too are higher for the Corporation than for private insurers.

6.2.9. If the standard of percentages is used to compare the growth in the Corporation's business with that achieved by the foreign insurers, the comparison becomes somewhat vitiated by the point that we have already made in the earlier paragraphs. The relevant figures for foreign countries are much larger than those for the Corporation, and, therefore, a higher percentage increase for the Corporation as compared to foreign insurers does not have the same significance as it has when compared to the private insurers in India during the pre-nationalisation days. In the U.S.A., the total life business in force increased from 372,332 million dollars on 31-12-1955 to 1079,821 million dollars on 31-12-1967, *i.e.*, by 190 per cent over a period of 12 years. As against this the Corporation's business in force increased from Rs. 1220 crores on 31-12-1955 to Rs. 4774 crores on 31-3-1967, *i.e.*, by 287 per cent over a shorter period of 11¼ years. But it would be hazardous to say, merely on the

basis of a comparison of 190 per cent with 287 per cent, that the Corporation has done better than the Companies in the U.S.A. Again there are other reasons, social, economic and educational, which reduce the value of comparisons between the L.I.C., and foreign insurers. We have not therefore attempted any detailed study of the growth of life insurance in other countries.

Some features of the Corporation's performance:

6.3.1. Though life insurance business has grown much more rapidly after nationalisation than before, yet it appears to us that there has been a distinct deterioration in performance since 1961. For instance, the average rate of increase in yearly new business from 1-1-1956 to 31-12-1961 has been about 17 per cent, whereas the rate of increase was about 6 per cent during the period from 1-1-1962 to 31-3-1968. Applying a similar test to the total business in force, the average rate of increase in the year-end business in force has been 15 per cent from 31-12-1955 to 31-12-1961, whereas the rate has been 11 per cent from 31-12-1961 to 31-3-1968. Taking the number of policies in force as the standard of comparison, it is seen that this number increased from 47·92 lakhs on 1-1-1956 to 85·81 lakhs on 31-12-1961, *i.e.*, by 75 per cent over a period of 6 years or by 13 per cent per annum on an average. The similar average per annum for the 6¼ year period from 31-12-1961 to 31-3-1968 is only 8 per cent. The number of new policies issued was 8,31,491 in 1955, 14,69,664 in 1961, and 14,28,043 in 1967-68. It may be noted that after 1961 this number has alternately increased and decreased, the highest figure reached having been 16,46,291 in 1963-64 and the lowest 14,11,920 in 1966-67. Nothing illustrates more obviously the deterioration in the performance of the Corporation after 1961 than the number of new policies issued.

6.3.2. The defect of comparison by measuring percentage increases or decreases, pointed out in paragraph 6.2.8., affects to some extent the comparison between the working of the Corporation before and after 31-12-1961. For, the absolute figures relating to the period after 31-12-1961 are naturally larger than those relating to the earlier period. Still, so far as the figures about the new business or the number of new policies issued are concerned, there is no doubt that there has been a noticeable fall in the Corporation's performance after 31-12-1961. It has already been pointed out in Chapter II that the Corporation's level of expenses, judged by the renewal expense ratio or by the cost ratios, began to rise only after 1961.

6.3.3. What we have stated in the preceding paragraphs should make it clear that there is no reason to be complacent about the performance of the Corporation. In fact, the position has deteriorated in recent years, both in respect of the growth of business and expense level. We have first to find out the reasons for this deterioration. With that end in view we have examined, in the succeeding paragraphs (6.4.1 to 6.9.14) the steps that the Corporation took in the earlier period to increase its business. We have also tried to see whether these steps themselves retarded the sustained growth of business or increased the expenses during the later period. We have then proceeded to suggest a few remedial steps that might be taken.

Opening of new Offices:

6.4.1. One of the steps that the Corporation adopted for spreading insurance was to create a net work of its own offices throughout the country. Thus in its very first report the Corporation stated :—

> "In consonance with the spirit of nationalisation and with a view to taking the message of life insurance to the remotest corners of the country, the Corporation established a net work of branch and sub-offices at 168 centres all over the country, as against only 97 centres at which the erstwhile insurers had such offices. At the principal cities the Corporation has established more than one branch. The total number of branch and sub-offices opened shortly after the appointed day was 209.
>
> The process of taking insurance service to the doorsteps of the
> The process of taking insurance service to the doorsteps of the insuring public is a continuing one, and during the period of sixteen months ended on 31st December 1957, 27 new branch and sub-offices were set up. The initial difficulties, especially in providing the necessary manpower for the new offices, prevented the opening of a large number of offices during the period under review. These difficulties are gradually being overcome, and the Corporation expects to implement, in stages, its development plans, which envisage creation of some 300 additional branch and sub-offices during the period 1958 to 1963. Since 31st December 1957 and upto the date of this report the Corporation has already opened 64 new branch and sub-offices. The purpose of this rapid expansion is to penetrate rural areas which had not received adequate attention prior to nationalisation".*

6.4.2. Initially on or about the 1st September, 1956 the Corporation established 181 Branches and 30 sub-offices at 168 different centres spread over the whole country and allocated its entire geographical area among the various offices so that, except for city offices having a common area, each office looked after the development of business within an exclusive area contiguous to it. Even so, some of the branches or sub-offices covered vast areas. The Corporation therefore began to sub-divide these areas and established new offices corresponding to these sub-areas. From 1960, the Corporation started a new type of office called a development centre. For opening a branch, a sub-office or a development centre in any sub-area, at first it was considered sufficient if the sub-area showed a promise of a new business production of Rs. 75 lakhs, Rs. 50 lakhs and Rs. 30 lakhs, respectively. Thus if the original area under a branch showed a promise of new business of Rs. 125(75+50)lakhs, a sub-area with a new business expectation of Rs. 50 lakhs was carved out of it, and a sub-office established in it. On a similar basis new branches development centres were opened; or existing sub-offices or development centres were upgraded. While this process of sub-division or upgrading was adopted in the belief that the new business production of entire area would be substantially increased, it also indirectly set a

*Paras 88 & 89 of the Report for the period 1-9-56 to 31-12-57 published in December 1958.

limit to the growth of new business production at an office of a given status. For instance, in the above example, new business production of Rs. 125 lakhs became, as it were, the limit for the branch; for, as soon as this limit was approached, the branch's new business production diminished to Rs. 75 lakhs when a sub-area with a new business expectation of Rs. 50 lakhs was carved out of its original area. Similarly if a sub-office showed a promise of a new business production of Rs. 75 lakhs, it was upgraded to the status of a branch. Thus Rs. 75 lakhs became, as it were, the limit to the growth of new business production at a sub-office as long as it remained as a sub-office. Upgrading an existing office or opening a new office naturally increased the cost; thus on the day of such upgrading or opening, the cost of new business production in the area increased for the same total new business production. If, as a result of the upgrading or opening, the new business production of the total area increased sufficiently to neutralize the additional cost of upgrading or opening a new office, the cost of procuration reverted to the original figure, otherwise it remained higher.

6.4.3. We are not suggesting that the process of upgrading an office or sub-dividing an area was followed without any expectation. But by and large this was the method followed to build up a net work of offices. From 181 branches and 30 sub-offices on 1st September 1956, the Corporation increased the number of its offices to 340 branches, 179 sub-offices and 175 development centres on 31st March 1963. This expansion was indeed very rapid. Compared to this the increase after 31st March 1963 was considerably slower. There was just one instance of down-grading and one of closure of an office before 31st March 1963; but thereafter quite a few offices began to be down-graded or closed for poor performance. However, downgrading or closing down an office was not easy, since it involved the transfer or retrenchment of staff. There were also political pressures in favour of opening new offices and against the closure of uneconomic offices. So, closures and down-grading were not many. Their actual number in a year was smaller than the number of upgradings, which continued even after 31st March, 1963. The number of new offices opened was, however, much smaller after 31st March 1963. The net increase in the total number of offices was thus smaller after 31st March 1963. It was only in 1967-68 that the number of each type of office either remained stationary or decreased.

6.4.4. The figures for the expenses of the offices (branches etc.) are not separately available even for all the branches taken together. Nor are the staff figures for the various offices for the period prior to 31st March, 1963 separately available. It is not, therefore, possible to estimate the effect of the planned increase in the number of offices on the cost ratios. Certain broad inferences are however possible from general considerations. Over the period during which the Corporation resorted to the expedient of opening an increasing number of offices in the mofussil areas one of the two things could have happened. The increase in new business could have been sufficient to maintain the same expense level as at the beginning of the period or even to reduce it. If this was the case, the process of increasing the number of offices would only have reduced or eliminated the savings that would have otherwise resulted if the same increase in new business could have been secured through a smaller number of offices. Alternatively, insufficient increase in new business could

have pushed up the expense level. It may be useful to examine which of these two alternatives actually happened in the case of LIC.

6.4.5. It appears to us that a suitable standard for judging the level of expenses incurred in increasing the number of offices for expanding new business, is the P.S.E. and A.S.E. cost ratios, which together give, (according to the budget method) the contribution made by staff expenses to the new business cost ratio. As these offices do business in India only, the P.S.E. and the A.S.E. cost ratios to be considered here should appropriately be those relating to Indian business only. These (Indian business) cost ratios for 1958 are 17.29 per cent and 11.63 per cent and for 1967-68 20.45 per cent and 11.69 per cent, respectively. It can be seen that both the cost ratios have increased over the period, more particularly the P.S.E. cost ratio. The combined Staff Emoluments (S.E.) per cent cost ratio has increased by 3.22. Thus, on the whole, from 1958 to 1967-68 the level of expenses has increased. In the case of the L.I.C. it cannot, therefore, be said that the opening of new offices or upgrading of existing offices has only led to the elimination of possible savings, and not to an increase in the level of expenses.

6.4.6. Another question that arises in this context is whether, but for the increase in the number of offices, new business would not have increased to the extent to which it increased. For the period upto 1961 the number of offices was increasing, and the number of new policies issued in India was also increasing. Thus there may appear to have been some sort of correlation between the number of offices and the number of new policies issued in India upto 1961, but, after 1961, there appears to have been no such correlation. Though the number of offices was still increasing upto 1966-67, though at a much slower rate, the number of new policies issued in India was alternatively increasing and decreasing, as will be clear from the following table :—

TABLE 6.2

	No. of new policies issued in India
1961	14,61,608
1962-63	14,06,437*
1963-64	16,37,759
1964-65	14,35,601
1965-66	15,54,758
1966-67	14,06,033
1967-68	14,23,380

* Though the accounting period 1962-63 was of 15 months, the number of policies given here is for a year, calculated on a proportionate basis.

Thus the number of offices does not appear to have been a decisive factor leading to increase or decrease in new business. Its effect seems to have been over-shadowed by that of another factor, *viz.*, the degree of efforts put in by the development officers. In any case, it appears that the policy of covering the mofussil areas with an increasing number of new or upgraded offices has not, over the whole period, helped in producing enough increase in new business to neutralize the rise in cost. Of course, the Corporation was quite aware that costs in rural areas are high, partly because of the inevitable expenses 'in breaking new ground', but it appears to

have held the hope that the resultant increase in new business would contain these high costs.

Five Year Plan:

6.5.1. Besides opening offices in remote areas, another step that the Corporation took was to go in for planned development of new business. In January, 1959, it drew up a plan, known as the "Five Year Plan". The plan envisaged that the Corporation should reach a new business target of Rs. 1,000 crores in 1963, from a completed new business of about Rs. 345 crores in 1958. The annual new business targets for the period covered by the "Five Year Plan" were originally suggested by the then Chairman at a Zonal Managers' Conference that was held on 12th January, 1959. It appears that these targets were calculated on the basis of the very satisfactory increase in new business in 1958 (as compared to 1957) and the appeal that the target of a new business of Rs. 1,000 crores in a year had acquired in the light of the parliamentary discussions on the L.I.C. Bill. Thus very soon after the Zonal Managers' Conference, the then Chairman of the Corporation announced at a press conference that "the Corporation is now thinking in terms of being able to underwrite an annual business of Rs. 1,000 crores in 1963". But for the magic influence that the figure of Rs. 1,000 crores seems to have acquired, it would not have been ordinarily considered necessary to announce in 1959 what the Corporation intended or hoped to do in 1963. While referring to this influence of the figure of Rs. 1,000 crores, a later Chairman of the Corporation remarked in 1963: ". . . .in fixing targets it was necessary to keep in mind the background in the matter. . . . At the time of nationalisation, the idea had gone round that the L.I.C. could in a short period increase the new business to Rs. 1,000 crores. This view was not based on any detailed and scientific examination of the potentiality of business but was of the nature of an educated guess. However, that led to fixation of targets which subsequent experience might prove on the high side".

6.5.2. The yearly targets as originally planned for the years in Five Year Plan, the budgeted target for each of these years and the actual completed new business for each year are given below :—

TABLE 6·3

Year	New Business (In Crores of Rupees		
	Originally planned	Budgeted	Actually completed
1959	415	415	429
1960	525	533	498
1961	665	663	609
1962*	820	760	581@
1962-63 (15 Months)	..	875	746
1963	1000	..	..
1963-64 (12 Months)	..	750	703

* The decision to change the accounting period so as to end on 31st March was taken some time in the latter part of 1962, so that in January 1959, when the Five Year Plan was drawn, the targets fixed were for successive calendar years only.

@ The monthwise figures are available only for the Indian Business and not for the total business. Hence the total business for the calendar year 1962 is estimated on the assumption that this TOTAL business bear the same proportion to the TOTAL business for the 15 Months' period ending on 31-3-1963 as the INDIAN business for the former period bears to the INDIAN business for the latter period.

6.5.3. The feasibility of the planned targets for a particular year was re-examined just before the commencement of that year, in the light of the performance of the previous year, the capacity of the organisation to improve its performance and the forecasts of the conditions likely to prevail during the year. The effect of this re-examination is revealed by the difference between the target as originally planned in the Five Year Plan and the budgeted target for the year. For 1959, the very first year of the plan period, the budgeted target and the plan target were naturally the same, but the actually completed business exceeded the target. This must have led to the fixing of the new business target for 1960 at a figure slightly higher than the plan target. Indeed, the overfulfilling of the target for 1959 created high hopes in the development wing of the Corporation's administration. The completed business, however, began to fall short of the planned target from 1960 onwards, and the gap began to widen as the years passed.

6.5.4. In 1960 the shortage was only slightly higher than 6 per cent. The figures for completed business of 1960 were not available when the budget target for 1961 was being determined. At that time it was expected that as against the budgeted target of Rs. 533 crores for 1960, 'only Rs. 523 crores will be reached' and accordingly the target for the year 1961 was fixed at Rs. 663 crores. The Chairman appears to have remarked at the Budget and Services Committee meeting on 12th December 1960 that "Though in the office note it (the Corporation) was expected to complete a new business of Rs. 523 crores during the year 1960, he felt doubtful whether he would achieve this target, and that he would be happy if he were able to complete a new business of Rs. 500 Crores". However, the suggested target of Rs. 663 crores in the office note was not changed either at this meeting or the subsequent Board meeting that was held on 26th December, 1960. Thus figure of Rs. 663 crores was only slightly smaller than the plan target of Rs. 665 crores for 1961. The completed business in 1961 fell short of the budget or the plan target by more than 8 per cent.

6.5.5. At the joint meeting of the Committee held on 11th December, 1961, the Chairman is reported to have explained that the "New Business prospect figure for 1961 is being placed at Rs. 640 crores as against the budgeted target of Rs. 663 crores. Even this figure might be a little high......" The Chairman further explained that "he took a more realistic view of the target in the light of the past experience, and fixed it at Rs. 760 crores for the year 1962, as against Rs. 797 crores anticipated by the Zonal Managers" and as against Rs. 820 crores envisaged in the plan.

6.5.6. It appears that by the end of 1961 it had become clear that the Five Year Plan could not be achieved. The target for the calendar year 1962, based as it was on 'a more realistic view', marked the end of the influence of the Five Year Plan on the annual budgeted targets. Upto the time of fixing the target for 1961 it appears that the Zonal Managers' proposals were based on the Five Year Plan targets, and these proposals were also the sanctioned budgeted target except for a slight scaling down for the year 1961. In a sense, therefore, the Five Year Plan proved to be operative for about three years. However, the target of Rs. 760 crores for 1962 and the later change in it to Rs. 875 crores in view of the change in the accounting period appear to have been based on the need to increase new business in accordance with the directive to spread the message of life

insurance throughout the country. This objective of increasing new business has, of course, continued to influence later targets as well, but a realistic appreciation of the past performance and considerations of cost seemed to have tempered most of the subsequent estimates.

Five Year Plan and the Expense Level

6.6.1. The Plan as such might not have had any direct *effect* on the expense level of the Corporation, but indirectly it did have an effect. Upto 1963 the criterion for opening new offices was an *expectation* (not an achievement) of a certain amount of new business. The strength of Class I Staff depended largely on the number of offices, and thus indirectly it also depended in the beginning, on expectations of new business.

6.6.2. As regards Classes III & IV staff, we were told that "during the period 1956—60 additional staff to various offices came to be recruited after taking into account the requirements of the offices based on the rapid growth of business, number of new offices opened, number of Agents and Development Officers, etc." The budget note in respect of the year 1960, prepared for the joint meeting of the committees states that "with the rapid expansion of new business that is *being planned* by the Corporation, certain increase in administrative staff is inevitable" (Underlining ours). This appears to suggest that the rapid growth mentioned above was probably the expected or the budgeted rapid growth. The other considerations referred to clearly did not depend upon the actual growth of business, but only on the expected business. Very probably the position was similar in 1961, since the cadre strength formulae were evolved sometime towards the end of 1961, and the job of processing requirements of additional staff for various zones was being done in full detail at the Central Office level only from the year 1962-63. At least upto 1963, even the cadre strength formulae, in so far as they depended on the number of offices, permitted the increase of staff according to the expected business; and in so far as the formulae depended on the numbers of agents and Development Officers, they had no connection with the actual business in force or new business. For all these reasons, we find that the staff increased very rapidly upto 31st March, 1963. It can be seen that the strength of Classes III & IV increased continuously upto 31st March, 1957 by 97 per cent from 1st September, 1956. 82 per cent of this increase was registered during the period upto 31st March, 1963.

6.6.3. As regards Class II staff, *viz.*, the Development Officers, upto the end of the year 1962-63, "the Zonal Managers were authorised to appoint Development Officers looking to the potentiality, population, etc. in respect of areas under their charge. Generally the number was determined on the basis of a target of Rs. 10 lakhs per year of new business". Thus the strength of Class II staff also depended upon the target, *i.e.*, the expectation of new business upto 1962-63. The number of Development Officers increased very rapidly during the years, the largest increases being from 5808 to 7128 in the year 1961 and from 7128 to 8219 in the subsequent fifteen months' accounting period. The strength of Class II increased continuously from 31st December 1958 to 31st March, 1965 by 81 per cent; and out of this increase as much as 70 per cent was registered in the period 1958—31st March, 1963.

6.6.4. It will thus be seen that upto 1962-63, the *expected* new business was the criterion for making additions to all cadres of staff. When the actual new business fell short of the expected new business, the staff actually became surplus, and thus increased the level of expenses. The amounts of expected new business *i.e.* the targets, were influenced in the early years by the Five Year Plan. In a sense, therefore, the Plan too has indirectly contributed to a rise in the level of expenses. This rise in the level of expenses has persisted to this day, largely on account of the frequent revisions in the salary scales and allowances during the period after 31st December, 1963, and partly also on account of the fact that new business has not increased uniformly or adequately from year to year, during this period.

Spreading insurance or reducing expense ratio

6.7.1. It is interesting to record that, in the course of evidence an officer from the top management of the Corporation posed a question, "Is it the responsibility of the Corporation to see that the renewal expense ratio does not exceed 15 per cent or is it our responsibility to see that every family in the country is given insurance protection" by going more interior into the countryside, and went on to observe, "if the objective is to remain within 15 per cent expense ratio, then the Corporation should amend their methods of organisation in the interior". We have no doubt that the people and the Government want the Corporation to do both, *i.e.* 'to go more interior' and to keep expenses within limits. It appears to us that in the early days, the Corporation too did not have any doubt about being able to achieve both expansion and economy. All that it anticipated in the 1956-57 annual report was that going more into interior would slow down the decline in the renewal expense ratio.

6.7.2. We must point out that we have not come across any evidence to suggest that there were occasions on which the Corporation was faced with a choice between increasing new business or keeping within the 15 per cent limit or the Corporation deliberately decided for ideological reasons to increase new business even at the cost of piercing the limit on the expense ratio. Neither the budget notes for the various years nor the minutes of discussions at budget meetings give any such impression. It was for the first time in 1967-68 that the Corporation faced the possibility of having to budget for a renewal expense ratio higher than 15 per cent. In view of this possibility the office note forwarding the budget for 1967-68 took a very conservative view of the new business target for 1967-68, and suggested that this target be fixed at the revised estimate for 1966-67, which was Rs. 760 crores. The office note disclosed a renewal expense ratio of 18.25 per cent. It was at the special joint meeting of the Committees held on 25th March, 1967 that the Corporation decided to raise this target to Rs. 800 crores, again not out of any ideological reasons, but because it was believed that 'there was no reason why the Corporation could not aim at a target of "Rs. 800 crores in 1967-68 when this figure was reached in 1965-66". We may also point out that raising the target to Rs. 800 crores actually reduced (and not increased) the renewal expense ratio from 18.25 per cent to 18.02 per cent. Thus, it appears to us that there were very practical reasons for increasing the target to Rs. 800 crores. Similarly the target for 1968-69 is higher than the completed business for 1967-68 only to the extent justified by the actual increase in new business for 1967-68 over that for the year 1966-67.

6.7.3. It is, however, true that the policy of extending operations into the interior has contributed to the present high level of expenses. But it cannot be said that the Corporation deliberately chose to extend its work to the rural areas even though it was aware that this policy was bound to result in a higher expense ratio. The policy was adopted for different reasons. Certain expectations were entertained about the increased business that would result from such a policy, and it was believed that the increase in expenses would only retard the reduction in the Renewal Expense Ratio. But permanent and increasing additions to the cost were incurred in the hope that these expectations would be fulfilled. The expectations, however, were not fulfilled. But revisions in salary and other expenses went on increasing the cost although business continued to be below expectations. This is how the policy of going "into the interior" resulted in a rise in the level of expenses.

6.7.4. It is also evident from the observations that we have quoted that the Corporation itself was aware that at some stage, may be when the RER rose a little above 15 per cent, as mentioned in the remarks we have quoted above, the process of going into interior had to be conditioned by the expense level. Of course this is as it should be, since the ability to provide protection to every family, will also depend upon the ability to keep the cost of insurance low enough to be within the reach of those who have to be provided protection. If the cost goes up, premiums will have to be raised, and this will impede the very process of providing protection to every family. It is, therefore, clear that insurance cannot spread widely unless the expense is as low as possible.

6.7.5. Even considerations of cost require that at the present juncture the income of the Corporation should increase, with less than proportionate addition to the expenditure. The present disproportionately high expenses must be absorbed by increased business, since salaries which form a major part of expenses cannot be reduced. At the meeting that was held to consider the budget for 1967-68, the Board of the Corporation felt that 'economy apart, the renewal expense ratio could be reduced only if there was substantial increase in new business'. Our Committee would like to emphasise that the level of expenses can be expected to come down only when the Corporation gives full weight to considerations of economy even while determining the methods and machinery for increasing new business. In fact, the main problem before the Corporation today is to increase its business without increasing the cost; and for this purpose the cost has to be judged not by a defective standard like the renewal expense ratio, but by a careful analysis of expenses and the comparative effect of factors like additions to staff, revisions in the scales of salaries, etc. which make a continuously *increasing* impact on the cost ratio and factors like the extension on non-medical limit etc. that lead to a more or less *level* reduction in the cost ratio. We have every reason to believe that if the Corporation had undertaken such an analysis, instead of depending solely on the Renewal Expense Ratio, before deciding on the methods of expanding business, it would have evolved more effective and economical ways of spreading insurance.

6.7.6. The Corporation has often cited natural calamities or external dangers as the reasons for the shortfall in its completed business (as compared to the expected targets) since 1961. We cannot say that these

were the determining factors that accounted for the shortfall in these years. For, if it is to be said that in a particular year, say, 1962-63, the fall in new business was due to the 'sharp setback in the development activities suffered during the last quarter of the year (1962) as a result of the Chinese incursion', there is, as against it, the evidence of the results being 'particularly gratifying' in 1965-66 in spite of 'the Pakistani attack'. Again, if 'the fall in business' in 1966-67 is to 'be attributed to economic conditions, natural calamities like drought and famine and agitations of some of our (L.I.C.'s) employees', then in spite of all these features continuing in 1967-68, the new business figure did show some improvement over the previous year and also over the budgeted target. The determining cause of the shortfall in new business therefore must have been something else. The following remarks in the budget note for 1967-68 are interesting:

> "There are ......no indications in the past experience to support an assumption that there will be a natural increase in new business from year to year. It would appear that there are features present in the sales organisation of the Corporation which render it very difficult, if not impossible, to achieve a regular and sustained growth of new business according to plan".

6.7.6. It appears to us that these features have arisen from the absence of an effective nexus between what the Corporation has done or could do to motivate its business getting machinery and the response to it in the form of a flow of new business. The methods adopted for increasing new business have invariably added to the cost not merely for the time being but permanently; nor have these methods held out any assurance that they would automatically lead to a continuous flow of new business from year to year. We, therefore, feel that the remedy for the present situation lies in refashioning the current methods of procuring new business to ensure that the Corporation has easy access to surer sources of new business and to limit the area in which it might have to incur additional expenditure without any certainty of a commensurate increase in new business. It is with this end in view that we have recommended some specific measures in the following paragraphs.

Group Approach:

6.8.1. The method followed by the Life Insurance Corporation for the procuration of business has largely been the age old method of approaching individuals who are prospective policyholders. Since this is a method in which Agents approach prospective policyholders on an individual basis, it may be described as the method of individual approach. As against this method, there is the method of group approach. There are many groups in Society, such as a group constituted by the employees of the same employer, a group of employees of many employers doing the same type of business, an association of persons practising the same profession, debtors of the same creditor, depositors of the same bank, members of any trade union or members of any association like a cooperative Society, Club, etc. The chief characteristics of all such groups is that they exist for purposes other than that of insurance, and yet, the management of the group would ordinarily like to render to its members some additional services like, for instance, securing insurance protection at a

lower cost, unconnected with the main object that brings the group together. If an insurer approaches such a management with a proposal for the insurance of the group, it can be described as a group approach. It is obvious that the group approach is less costly than the individual approach, because a larger number of people can be approached with even less effort than required in making individual approaches to the constituent members of the group. If all persons in the group or a sub-group of them (formed otherwise than by giving freedom of choice whether to insure and, if so for what amount) are covered under a group insurance scheme then the procedure of medical selection can be dispensed with. Servicing of a group becomes cheaper than servicing of individuals. Thus the premiums for group insurance can ordinarily be lower than those for similar types of individual insurance on the same lives. The mechanism of group insurance, therefore, brings insurance within the reach of more and more people down the economic ladder. This process is further accelerated if the management of the group, like the employer, the creditor or the bank in some of the above instances, is prepared to share the cost of insurance, which it may well afford to do even out of business considerations. For instance, an employer may feel that such sharing will improve his relations with the employees, a bank may feel that by providing such an additional service to its customers, it may attract more deposits or a creditor may feel that by such a device the cost of realisation of loans on the death of the debtor may ultimately be lower. It appears, therefore, to be a very sound proposition to say that in an economically backward country like India a group approach may spread insurance sooner, to a wider circle, and at a cheaper cost. As we go down the economic ladder, the average sum assured is likely to be lower, the remuneration to the agent making the individual approach, correspondingly smaller, and the effort required to persuade the prospective policy-holder greater. All these characteristics point to the unsuitability of the individual approach for spreading insurance to persons with low incomes. The group approach thus becomes indispensable when our aim is to take deliberate steps to spread insurance far and wide, and not merely to hope that insurance will spread as a by-product of the steps that one takes.

6.8.2. On the 1st September 1961 the then Chairman of the Life Insurance Corporation, who was the author of the Five Year Plan (Life Insurance), spoke at a meeting of the Bombay Insurance Institute and said that the method of individual approach could not take us far in achieving our goal of spreading insurance to the nooks and corners of our country. He said that the individual approach 'has to be transformed into a mass approach in order to obtain mass business'. We are aware that the sense in which the Chairman used the words 'individual approach' and 'mass approach', which is more or less the same as 'group approach' is slightly different from the sense in which we have used the terms here. Yet, we have no doubt that the idea of the group approach was implicit in his scheme. We understand from the Corporation that this speech of the Chairman and the idea that it contained were not officially examined by the Corporation. It appears to us that by the time the Chairman who was also the author of the Five Year Plan made the speech in September 1961, he had realised the limitations of the individual approach in pushing a plan like the Five Year Plan for the planned development of life insurance business in our country.

6.8.3. To a question* asked in Parliament in 1962 Government replied that "the feasibility of introducing a scheme of Mass Insurance is under the consideration of the Life Insurance Corporation". However, in view of the answer that the Corporation gave us in response to our enquiries, it seems to us that nothing came out of the examination of the mass scheme that was referred to in Parliament. We are not in a position to say anything about the practicability or otherwise of the scheme suggested by the Chairman. But we do regret that the opportunity provided by the speech of the Chairman was not exploited to see what changes in approach, if any, were necessary to spread insurance in the country, and, further, to spread it without increasing the expense level.

Group Insurance:

6.9.1. When an employer accepts the proposals made to him to provide insurance benefit for his employees, the insurance that results is generally known as group insurance. That the Corporation was aware of the value of such group business is evident from its very first Report for the 16 months' period ending on 31st December 1957. The report states :—

> "Another measure designed to expand the scope for life insurance business is the introduction of Group Insurance and Superannuation Schemes which have proved very popular in Western countries. Through these schemes employers are enabled to provide insurance protection and retirement benefits for their employees at a low cost. Up to now only a small volume of new business has been written under these schemes. A lot of intensive work has to be put in before an employer can be made to realise the benefits of such schemes, both to himself and to his employees. Then, there are certain genuine difficulties which at present hamper the growth of this business. The new business written would not, therefore, appear to be indicative of the actual potential or of the pioneering efforts that have been put in so far. The experience gained up to now is being reviewed and on the basis of this review, the Corporation intends to take all steps necessary to secure a more intensive cultivation of this business".

This extract does not however show that the Corporation had become aware of the indispensability of the group approach for spreading insurance business throughout the country. The individual approach, therefore, continued to be the mainstay for the development of the Corporation's business. The "intensive work" referred to in the Report was not put in: nor was any attempt made to spotlight or resolve the "genuine difficulties" that hampered the growth of group insurance.

6.9.2. Even so, we cannot ignore the fact that the Corporation has taken a few steps to develop Group Insurance. From 1961 onwards it has sold, on an average, in any accounting period about four Superannuation Schemes granting annuity benefits only, and about 30 Group Insurance and Superannuation Schemes granting insurance benefits, either exclusively, or in combination with annuity benefits. The number of new Group Insurance or Superannuation Schemes has increased from 14 in 1961 to 40

* Starred Question No. 281, dated 29-3-1962.

in 1967-68. The total number of Group Superannuation Schemes (granting only annuity benefits) in force on 31st March, 1968 was 48, and the total number of Group Insurance or Superannuation Schemes (granting exclusively or partly insurance benefits) in force on the same date was 251. The total premium received during 1967-68 under Group Schemes was about Rs. 4.28 crores out of the total premium of Rs. 213.01 crores received from the entire business of the Corporation during the same period. Thus, group premium works out to about 2 per cent of the entire premium. It appears that the similar proportion in respect of the business of Companies in the U.K. was about 29 per cent in 1966*. In the U.S.A. it was about 26 per cent in 1966, excluding accident and health insurance, and 37 per cent including these. The proportion of the number of members covered under the group schemes to the total number of policies was 30 per cent in the U.K. and 38 per cent** in the U.S.A. in 1966. This proportion cannot be calculated in the case of the L.I.C., since the number of members covered under group schemes is not known. However, even a liberal estimate cannot put this proportion higher than 1 per cent for the Corporation, at the end of 1967-68. It is thus evident that we are lagging far behind the U.K. and the U.S.A. in the development of group business. It can certainly be argued that the U.K. and U.S.A. are far more industrialized and economically advanced than we are. This factor, however, affects non-group business as well. In any case it cannot be denied that there is considerable scope for the development of group business in our country. We have, therefore, to see what requires to be done to increase this business.

6.9.3. It has been pointed out to us that the main reason for the slow growth of group insurance is that 'inadequate attention is being paid to market research and technical development'. It is in these fields that sustained intensive work will have to be put in. The Corporation has not gone beyond employer-employee groups; and for these groups, there are some genuine difficulties.

6.9.4. The most usual group insurance benefit, apart from group pension schemes, is what is known as "term insurance benefit" which entitles the insured to receive a payment from the insurer only in case of death during a certain term, say the term of his service. This is the kind of benefit which an employer will find advantageous to offer to his employees at his own cost. The certainty that one's dependents will be provided for in case of one's premature death promotes a sense of loyalty to the employer, and results in a distinct improvement in employer-employee relations. This is the reason why many employers prefer to pay a part or the whole of the cost of the group term insurance benefit of their employees. But group term insurance business cannot expand unless the employees themselves appreciate the value of the term insurance benefit, and learn to give it reasonable priority over cash benefits. One of the factors that is coming in the way of the development of the group business of the L.I.C. is the fact that workers have not yet begun to show this

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* Life Assurance Schemes and Pension Schemes in the U.K. are taken here as indicating the extent of group business.

** It appears that this figure relates to business excluding accident and health insurance. The disparity between this figure and the corresponding figure of 26% in respect of premium appears to be due to a larger number of term assurances under group plans than under individual plans.

appreciation of the value of term insurance. We must here point out that in the U.S.A. labour unions have played an important part in the development of group business.

6.9.5. At present the accepted forms in which supplementary monetary benefits are provided by the employer to his employees are provident fund, bonus, gratuity or pension. Even industrial awards and statutory labour welfare measures are concerned with the provision of benefits in one or the other of these forms. If group insurance is to make real headway in our country, group term insurance must, as in many other countries, acquire the status of an accepted form in which the employer can transfer supplementary monetary benefits to his employees. It appears to us that if employees accept part of the additional cash benefits that the employer pays to his employees as dearness allowance or bonus or revision in the salary scales, in the form of a group term insurance benefit, it will prove advantageous both from the economic and the social point of view. It will divert a portion of the current individual earnings to savings and thus have an anti-inflationary effect like all other forms of savings. Moreover a saving in the form of term insurance benefit satisfies a social need, namely, the provision of a measure of security for the dependents of a deceased earner. A group term insurance scheme extends insurance coverage to the lowest paid employee of a concern who would not otherwise think of insuring on his own. The availability of such insurance coverage at the cost of the employer makes the employee realise the value of insurance, and thus makes him insurance-minded. In the U.S.A. group insurance has played a significant role in spreading insurance-mindedness among the people. There can be no doubt that the development of group insurance business has a definite place in the scheme of things in a welfare state. *We therefore, recommend that Government may take steps to see that Group Term Insurance is given due recognition as one of the means which an employer may use to provide additional monetary benefits to his employees.*

6.9.6. A sufficiently large employer, who may expect to experience only average mortality among his employers, on account of the largeness of their number, must be assured that by having a group insurance scheme with the L.I.C. he is not incurring a higher expenditure than what he would have had to incur if he were to provide similar benefits directly, and not through the medium of the L. I. C. It is for this purpose that the expedients of 'experience rating' or 'profit sharing' have been introduced in group insurance schemes. L. I. C. has such schemes of experience rating or profit sharing where the mortality experience of the particular group is given due weight in either rating, i.e. adjusting the premium, or allowing the employer to share in the mortality profit. It has, however, been pointed out to us that the L. I. C's schemes cannot yet be described as adequate. Though it is not possible for us to go into the details of these schemes here, we should express the hope that the degree of caution exercised by the L. I. C. in the estimation of the future mortality experience of particularly large groups or in the estimation of other related factors is not far above what can be regarded as the requisite minimum. The experience of other countries shows that a pragmatic approach—something that has worked—has often led companies to over rule actuarial insight into these matters. We are not suggesting that undue risks should be taken in evolving experience rating or profit sharing schemes. Actuarial techniques are necessary

to use the latest experience of group business, or even to determine what is the *due* risk that can be taken. *We, therefore, wish to recommend that experience rating and profit sharing schemes should be continuously reviewed and readjusted to help to maximize the growth of group insurance in our country.*

6.9.7. The only other forms of employees' additional benefits which can be brought under the mechanism of group insurance are gratuity and pension. The liabilities under these benefits can be met in two ways—either by making payments as and when these liabilities actually arise, or by creating a fund to which periodical contributions are made by the employer and out of which the payment to the employees are made as and when they become due. Such a fund may be managed by the employer himself, or he may pay his periodical contributions to an insurer like the L. I. C., and this insurer may then make payments to the employees. An insurer will handle such business through a Group Insurance Scheme.

6.9.8. Schemes which are entirely non-contributory, like gratuity schemes, may be managed by the employer himself, but schemes which are contributory like most pension schemes, will have wholly or partly to be managed through the L. I. C., as the Corporation has a monopoly of receiving considerations in the form of premiums for providing insurance benefits, which includes pension benefits. However, very few employers, apart from Government or local bodies, provide pension for their employees, even on a contributory basis. Group supperannuation business will have to depend on the prosperity of commercial or industrial concerns. The development of group pension business is, therefore, a slow and long term process.

6.9.9. It has been pointed out to us that approved self-administered (private) pension schemes have an advantage over the L. I. C's group superannuation schemes. All the profits of an approved private pension fund including interest earned on investments, are exempt from income tax. But in the case of the L. I. C., profits derived from the group superannuation schemes are also taxable, though interest earned on investments made out of the funds of such schemes, so far as it relates to annuity benefits, is not taxable. At present the Income Tax Authorities have a good case for making this distinction for, the profits of a private approved supperannuation fund, created as it is by an irrevocable trust are entirely the property of the pensioners, and the employer has no right over any portion of them. This is not the case with the L. I. C. where the persons covered under the group superannuation schemes do not get any share of the profits. If the L. I. C. transfers these profits to the insured in some form, there will be a case for the profits which get distributed to be treated as non-taxable as in the case of profits accruing from an approved private pension fund.

6.9.10. Again, there is some difference between the restrictions placed by the Trust Act on the investments of a private fund and the restrictions placed by the Life Insurance Corporation Act on the investment of the L.I.C. For instance, the latter require a minimum portion of the Fund to be invested in Government or other approved securities, whereas the former allow any

portion of the Fund Insurance to be invested otherwise than in what are approved securities under the insurance Act, e.g. in bank deposits or mortgages. This enables a private pension fund to earn interest at a higher rate than the L.I.C. If the investments constituting the Group Superannuation Fund of the L.I.C. are made subject to the provisions in the Trust Act, the present dis advantage to the L.I.C. in the matter of realising a high yield on these investments will be removed. *We, therefore, recommend that*

(1) *the L.I.C. may consider the feasibility of establishing a separate Group Superannuation Fund with distinct assets and assessment of liability, and of distributing the profits accruing from this fund to the persons covered under it;* and

(2) *Government may then exempt the distributed profits from income-tax and make the investments of the fund subject to the restrictions under the Trust Act.*

6.9.11. As we have already stated earlier, there are a good number of other groups to whom a group approach can be made. In some groups like the depositors of a bank, or the debtors of a creditor the management and the members represent different interests. In some others like professional bodies, trade unions, etc. the two represent the same interest. In the former case the idea of group insurance will appeal to the management only when it can clearly see the advantage that accrues to it from insuring its employees under a Group Scheme. The Corporation must, therefore, search for such groups, and then attempt to sell the idea of group insurance to them. In the case of groups where in the management and the members share the same interest (professional bodies, etc.), the whole cost of the scheme is borne by the members themselves. If group insurance is to appeal to them the members of the groups must be able to see some advantage that accrues to them when they insure as a group instead of insuring separately as individuals. A scheme with such an evident advantage must be evolved. Unless the Corporation takes these factors into account and works out attractive schemes that are distinctly advantageous to different groups, it will be difficult to achieve a substantial growth of group business. *We, therefore, recommend that the Corporation should study the feasibility of introducing group insurance schemes that meet the special requirements of all the distinct groups that can be reached, e.g. professional bodies, grade unions, depositors of a bank, the debtors of a lending institution, etc.*

6.9.12. Government have very recently introduced a General Provident Fund for the members of the public, particularly self-employed persons. The utility of such a Provident Fund can be increased if it is possible to combine a decreasing temporary insurance benefit with this provident fund so that, on the death of the subscriber, a certain fixed minimum sum becomes available from the provident fund. The L. I. C. may provide the decreasing death benefit in return for a part of the contribution. *We recommend that the Government may examine the possibility of linking the newly created General Provident Fund to a decreasing death benefit to be provided by the L. I. C.*

6.9.13. The marketing of group insurance generally requires more expertise than the selling of policies to individuals and is, therefore, best handled by trained salaried staff. Except in the case of small groups,

the ordinary agent can do very little beyond initiating cases. It has, therefore, been observed that the growth of group business does not depend very much on an agency organisation. Even in the U.S.A. 'the marketing of group utilises service of the agency system' not because of necessary 'but merely because that system is there and traditional'. For these reasons as well as the fact that the direct procuration of group business will reduce the cost of procuration, *we recommend that group insurance business should, as far as possible, be directly secured.*

6.9.14. It has been suggested in some quarters that industrial assurance schemes, of the kind that operate in the U.K. and the U.S.A., should be introduced in India. Though these schemes involve individual approach to industrial labour, they differ from ordinary insurance in two important respects—the sums assured under the schemes are of a smaller amount, and premiums are collected every month or every week, depending upon the manner of payment of the wages, by house-to-house visits to the policy-holders. These schemes are naturally more expensive. In 1957, the Corporation introduced a somewhat similar scheme known as the Janata Policy, on an experimental basis. The main features of the scheme as stated in the 1956-57 annual report were:—

(i) Minimum sum assured Rs. 250 and Maximum sum assured Rs. 999;

(ii) No medical examination for persons aged 35 years or less;

(iii) Door-to-door premium collection;

(iv) Policy and other documents in regional languages.

'The Project' was 'designed to yield data regarding problems confronting sale, premium collection work, conservation of business, organisational pattern and the type of field staff required to propogate the message of life insurance among industrial workers and rural population'.* A feature of the scheme that has not been referred to in this excerpt was that the rates of premium were higher than those for ordinary schemes of insurance, though rebates and extras for different modes of payment were not applicable to these policies. The Janata Scheme was introduced in May 1957 with the full blessings of all the main Trade Union Federations, and the inaugural ceremonies were attended by State or Central Ministers at various places. It was hailed as 'the single biggest factor that could play a significant part in the development of the Indian insurance industry'. No scheme could have been launched under better auspices. Yet, in the words of a senior officer of the Corporation the scheme 'proved a flop'. This scheme has now, for all practical purposes, been given up. In the light of this experience, we do not think it will be advisable to make any special efforts to push through any industrial assurance schemes. It will only add to expenses without producing desired or commensurate results. In the U.S.A. industrial assurance is slowly giving way to group insurance. We believe that in India too, it will be much more efficient and rewarding to approach industrial labour through group insurance.

Compulsory Insurance :

6.10.1. We have today two social security schemes for industrial labour, *viz.* the Employees' State Insurance Scheme and the Employees' Provident Fund Scheme, financed out of employers' and employees'

* Para 105 of the Annual Report of the LIC for 1956-57.

contributions. If a scheme of compulsory group term life insurance with a small additional contribution, if necessary, divided among the employer and the employees, is combined with any of these schemes*, it would be the cheapest and most effective method for providing the benefits of group insurance to industrial labour. There is probably no other scheme which can keep the cost at a minimum. The administration of the scheme can be made very simple with the L. I. C. providing the insurance benefits at the net actual cost with a small addition for the expenses that it will have to incur, and for unfavourable fluctuations in mortality. The insurance benefit can be a death benefit equal to, say a year's or 15 months' salary payable at the time of death, during the working period of the employees. Such a term insurance benefit will remove a lacuna that exists at present in the two schemes taken together. It is necessary that the actuarial technique for calculating the premium for this term insurance benefit should measure up to the dimensions of the problem and lead to the utmost possible simplicity in calculating the premium payable to the L.I.C. by the scheme. A lot of careful planning would be necessary for the initiation of such a scheme. *We recommend that a term insurance group benefit be provided to industrial labour on a compulsory basis through the agency of the Employees' State Insurance Scheme and/or the Employees' Provident Fund Scheme, and a committee be appointed to work out the details of such a scheme.*

6.10.2. Besides the industrial labour that may be covered under the Employees' State Insurance and the Employees' Provident Schemes, there is of course the far larger class of other employed persons. Almost all of them need insurance though all may not have the capacity to pay for it. Some of those who have the capacity to pay for insurance insure themselves even now. To distinguish this form of insurance from the group insurance provided by the employer, we may refer to it as self-provided insurance. The fact that the employees of a single employer form a group by themselves can be used not only to make group insurance possible but also to reduce the cost of such self-provided insurance. If the cost is reduced, more employees will acquire the capacity to pay for insurance, and the extent of the self-provided insurance will also increase for a given amount of premium.

6.10.3. The Corporation has introduced Salary Savings Schemes for the benefit of the employed population. The chief characteristic of these schemes is that the employers themselves deduct premiums from the monthly salary of the employees and remit them direct to the L.I.C., in bulk. The only advantage that the employees get for this mode of payment of premium is that, though they pay monthly premium the extra charge that is usually levied on policies with monthly premiums is waived in their case, and the annual rate of premium too is reduced by 75 paise per thousand sum assured. This is the reduction that the Corporation usually grants for premium paid yearly. In other words the policyholder under the Salary Savings Scheme is treated as if he is paying the premiums yearly. The bulk collection of premiums, which is the characteristic of the Salary Savings Scheme, is made possible because employees form an organised group. In fact this feature of the Scheme is an example of the advantages that can be derived from a group approach.

*It is understood that a study group appointed by the Union Labour Ministry recommended in 1958 that these two schemes sould be operated by a single agency.

6.10.4. However, one often hears the complaint that the Salary Savings Scheme has not succeeded in securing the reduction in cost that is expected to result from the group approach. The Public Undertaking Committee has recommended that in view of the fact 'that the chances of lapses under this scheme are very little' 'the feasibility of giving a higher discount' (*i.e.* reduction in the premium) 'might be considered by the Corporation'. The Government's reply to this recommendation was as follows:—

> 'The main consideration in allowing a rebate in premium of 75 paise per thousand sum assured under the Salary Savings Scheme, which is normally allowed only when premium are payable annually, is the expectation of saving in administrative cost resulting from the abolition of monthly notices and receipts and individual premium registers. *Unfortunately*, however, this expectation is not fulfilled'.
> (Underlining ours).

It is clear from this reply of the Government that the actual reduction in the premium under the Salary Savings policies is not justified by the reduction of expenses that may have materialised under these policies. As the Government's reply goes on to say "Of the 25,000 and odd paying authorities*, a considerable proportion do not send the monthly remittances to the Corporation in time in spite of reminders, resulting in loss of interest income. Further the reconciliation of the (monthly) demand and the remittance is also not done correctly and satisfactorily resulting in labour and expense".

6.10.5. It is sometimes observed that though the policy-holder is under the impression that deductions are being made out of his salary regularly,

Statement showing the Number of Institutions having salary Savings Scheme—1967-68.

Division	No. of Institutions
Northern Zone :	
Delhi	957
Jullundur	1,832
Chandigarh	691
Ajmer	1,209
TOTAL	4,609
Central Zone :	
Lucknow	534
Kanpur	326
Meerut	457
Agra	332
Varanasi	466
Indore	280
Jabalpur	337
TOTAL	2,732

* A list of the numbers of the Salary Saving Schemes in force on 31-3-1968 is g

Division	No. of Institutions
Eastern Zone	(See origir al p. 286)
Southern Zone :	
Bangalore	718
Udipi	346
Hyderabad	608
Machilipatnam	540
Madras	683
Thanjavur	311
Madurai	654
Coimbatore	1,384
Trivandrum	1,757
TOTAL	7,001
Western Zone :	
Rajkot	428
Ahmedabad	642
Surat	448
Bombay	2,315
Satara	221
Poona	418
Nasik	590
Nagpur	729
TOTAL	5,791
TOTAL IN INDIA	26,907

when he dies his heirs experience some difficulty in claim settlement because all the deductions have not been promptly or properly adjusted in the books of the Corporation. There are other aspects too in which the progress of the scheme does not appear to have been satisfactory; 25,000 and odd paying authorities throughout India is not a very impressive figure, particularly when it is observed that a single employer may be represented by more than one paying authority. Moreover, all the employees under any one paying authority are not necessarily insured. The exact number of Salary Savings policies in force on any date is not available, but the total number of policies issued up to the 31st March, 1968 does not exceed 20 lakhs. Even if it is assumed, for the sake of argument, that all these policies are in force today, it is very doubtful whether these policies cover even 10 per cent of the employed population today.* We, therefore, feel that the Salary Savings Schemes have not taken enough advantage of the possibilities of a group approach to the employed population.

6.10.6. It appears to us that one of the ways of providing insurance cover to the largest number of people, and at the same time benefitting from the group approach will be to introduce a compulsory insurance scheme that can be unquestionably beneficial to the employed population.

*In the absence of any more reliable basis, the proportion of the employed population to the total population as at the time of the 1951 census is assumed to hold good today too. Very probably this proportion is much larger today, in which case the figure of 10% will be correspondingly reduced.

Government may make insurance compulsory for all the employed population, the amount of insurance being limited by stipulating a certain percentage of the income to be paid by way of premium. This percentge should be between a certain minimum figure and a certain maximum figure, both suitably fixed. The minimum should be low enough to enable as many low-salaried employees as possible to pay the premium. The maximum need not be too high. It may be sufficient to buy an insurance cover of approximately 2 to 2½ years' income. It has been estimated that the insurance cover that an employee needs is the equivalent of 5 years' income. But we feel that it will be advisable to leave it to the employee to determine the total cover he requires and seek any additional insurance that he may require over and above the 2 or 2½ years' income that will be provided under the Compulsory Scheme. Under such a compulsory scheme both the procuration and the medical expenses can be reduced to almost nil, and therefore the total reduction in expenses can be substantial. Further the employer may be required to render certain definite services (not only the remittance of the premiums collected by deductions from salary, as at present under the Salary Savings policies, but some additional services like age proof, nomination, etc.). He may be reimbursed for the cost of these services by permitting him to retain a small percentage of the premiums remitted by him. Under such a compulsory scheme the cost of insurance will go down, and therefore premiums too can be brought down to a low level. It is not difficult to devise a scheme that ensures that there is no interruption in the continuance of the insurance benefit, even if an employee leaves one employer and joins another. Certain safeguards will have to be provided in the scheme to ensure that deductions are not stopped and/or the insurance benefit is not affected even during periods of leave without pay. The mere fact that premium had been deducted from the salary must be deemed as payment of the premium to the L.I.C. If the deducted premium is not remitted to the L.I.C., by oversight or otherwise, it should be a matter for the L.I.C. to settle with the employer, and should not in any way be allowed to affect the insurance coverage of the employee. This was not the practice under the Salary Savings Scheme, and hence difficulties had arisen. Under the Compulsory Scheme that we have proposed, it will be the statutory duty of the employer to deduct the premium from the salary and remit it to the L.I.C. A minimum strength of say 20, may be prescribed as the minimum required to constitute a group that may be eligible for Compulsory insurance and for the resultant reduction in the proportionate cost of collection and other expenses. The plans of insurance available under the scheme should be of the permanent type as against the term insurance benefit referred to in paragraphs 6.9.4. and 6.9.5. These plans need be few only, say a limited payment whole life policy, an endowment assurance or a deferred annuity. In initiating such schemes due regard will have to be paid to the existing insurance commitments of the employees both in regard to determining the extent of compulsory insurance applicable to him and also with a view to preventing lapsation under old existing policies. The lower rate of premium at which insurance could be had under the compulsory scheme, might lead to a tendency to convert old policies into paid-up policies and buy the policies under the compulsory scheme instead. Steps will have to be taken to check this tendency. The scheme may have to be introduced in suitable stages for different groups of the employed population, and the details of the scheme may have to vary for different

groups. As happens in the case of any new scheme, however beneficial it may be, a number of practical difficulties will have to be solved. These can be solved, once the indispensability of such a scheme for propagating life insurance and providing extensive insurance cover is fully realised. We, therefore, recommend that a Compulsory Life Insurance Scheme for the employed population should be formulated expeditiously and implemented.

6.10.7. The facility of insuring at the same rates as may be applicable to the compulsory scheme may be given to groups of non-employed persons too, subject to the professional bodies or associations representing such groups agreeing to the same conditions which employers accept under the compulsory insurance scheme. There will have to be a suitable rule for determining the eligibility for, and the maximum limit to, the sum assured under an insurance policy which can be secured in this manner. This rule will have to preclude anti-selection, i.e. the possibility of under-average lives securing an advantage which they would not get if they did not happen to be members of such a group.

6.10.8. The advantage of the scheme of compulsory insurance to the employee is evident in the low cost at which he can buy insurance under it. There is no reason for the employee to feel that the scheme imposes an additional burden on him. The scheme will not ignore the amount of existing insurances and compel the employee to pay for an additional compulsory insurance. The size of the compulsory insurance will have to be suitably determined. That is a matter of detail, and need not be gone into here. Where the existing insurances already cover an amount higher than this size, the scheme need not be applied. It is only in the case of employees who have no coverage or have only inadequate coverage as compared to this size, that the scheme will apply in the beginning; in due course of time the scheme should be extended to cover the entire employed population. In the case of those would go in for insurance only when they realise the value of it to themselves, the compulsory nature of the scheme provides an opportunity to see this value in a most effective way and actually encourages them to go in for additional voluntary insurance, as has been found from experience in the U.S.A. It might be said that the scheme imposes a burden on those who would not otherwise think of insurance. This may be true, in a certain sense, but this sort of burden has become almost inevitable in a modern welfare state. If the scheme is a positive advantage to many, the few who feel it to be irksome and restrictive will have to be bear with it, since the advantage that many desire cannot be secured without this acquiescence from the few. And a among these few, if there is any one who does not need a cover for dependants, against the risk of his death, the proposed scheme offers him the alternative to go in for a deferred annuity which does not involve such a cover. It can thus be seen that though the scheme is compulsory, it offers a choice *of a plan.*

6.10.9. In the case of a number of establishments contributory provident fund schemes are already in existence, and low paid employees may feel it a burden to pay the premium under the compulsory insurance in addition to the provident fund contribution that they are already paying. *We, therefore, recommend that employees covered by the Compulsory Insurance Scheme may be given the facility to pay the premium for compulsory*

insurance out of the provident fund contribution. Where this facility is availed of, the premium should be deemed to have been paid by the employer and the employee in the same proportion as that of their contributions to the provident fund. In some of the establishments in which employees do not have the benefit of a contributory provident fund their wages or salaries may be too low to permit them to pay the premiums for compulsory insurance. We recommend that the employers of such employees may be required to provide for them a group term insurance, at the cost of the employers themselves.

6.10.10. From the employer's point of view the advantage of the compulsory insurance scheme is that, without any addition to his establishment expenses, he makes it possible for his employees to obtain insurance at a cheap rate. This is a service that he renders to the employees, and is bound to earn him their good-will. Indeed in recognition of their good-will, some of the employers in the U.K. pass on to the employees the benefit of the commission or the reimbursement for expenses that they get from the insurer, under what are known as staff scheme.

6.10.11. From the point of view of the State, such a scheme is one of the most effective ways of mobilising the savings of the people. Even in a country like the U.S.A., where the insurance industry is not nationalised, the State has entered the insurance field in a big way. It has been estimated that out of the entire premium revenue collected in the U.S.A. in 1964 under all types of insurance, 34 per cent was contributed by individual insurance, 32 per cent by group, and 34 per cent by State insurance*. If this is the position in the U.S.A. where private enterprise holds the field, it will be easily appreciated that life insurance can be effectively spread in India only if the individual, the group and the State pull their full weight. Under the present circumstances in India, where insurance is already a nationalised industry, the most convenient way in which the State can further contribute to the spread of life insurance, is by introducing a compulsory scheme of the type that we have described above for the employed population and by providing group term insurance through the already existing agencies of Employees' State Insurance and Provident Fund.

6.10.12. The Estimates Committee (1960-61) has referred to the advisability of introducing compulsory life insurance for certain categories of employed persons, and observed :—

> "One of the desired effects of life insurance is an increased provision of social security. If this is to be achieved, it does not appear desirable to leave out of consideration the posibility of introducing compulsory life insurance to Central Government employees whose total number runs to about 20 lakhs. There is no reason why it cannot be done by the Central Government when it has been possible for a number of State Governments to do so. The Committee considers that the matter calls for

**Source* : P. 16 of the January 1967 issue of the Chartered Life Underwriters' Journa

> co-ordinated examination by Government at a high level. One of the requirements of such a scheme would be the deduction of premia at source".*

We must also point out that the 1963-64 Report of the Estimates Committee lists this as one of the recommendations that the Government has accepted. The Government's reply to the recommendation reads as follows:

> "The suggestion has been noted and, as suggested, is being examined by the Government of India".

The recommendation that we have made about Compulsory Insurance is in line with the Estimates Committee's recommendation. In fact, we have suggested that the recommendation of the Estimates Committee may be made applicable to other categories of employed personnel too.

6.10.13. That the subject of compulsory insurance has been frequently engaging the attention of Parliament is evident from the following private member's resolution that was moved in the House on the 18th August 1962:

> "This House calls upon the Government to appoint a Committee to examine the question of introducing compulsory life insurance for every earning citizen of India and to suggest ways and means for giving effect to such a resolution".
>
> On behalf of the Government, it was stated that "the resolution would not be acceptable to the Government in its present form".

Our recommendation is a little less ambitious than the proposal contained in the resolution. We have not suggested compulsory life insurance *for every earning citizen of India.* We have only suggested compulsory life insurance *for the employed population,* effected out of its own savings. Let us reiterate the rationale behind our recommendation. The element of compulsion that our scheme contains does not make it an irksome imposition. It almost eliminates the cost of procuration, and thus makes the insurance, which is even today being bought by many employed persons from their own resources, cheaper and within the reach of a substantially larger number. It effectively prevents wastage through lapse. It automatically secures the spread of insurance among the employed population, and releases the business-getting machinery for use elsewhere. One of the criticisms against the resolution that was moved in Parliament was that it contemplated compulsory insurance for every earning citizen; irrespective of the size of his earning and his lack of ability to pay even the most meagre of premiums, thus leaving it to the State to pay the premium for the citizen. This criticism is not applicable to our scheme, since the percentage of income that we expect the employee to pay is low and well within the capacity of even low paid employees. Moreover, our proposal to permit the employee to pay premiums from out of the provident fund contributions will ensure that compulsory insurance does not become a burden on the employees. We have also proposed a group term insurance

*Paragraph 71 of Report of Estimates Committee 1960-61.

plan at the cost of the employer for very low paid employees in establishments having no contributory provident fund scheme. Thus, our scheme does not contemplate any state subsidy. The automatic deduction of the premium is a feature of the schemes of compulsory insurance that some of our States are already operating for their employees. The practicability of our scheme thus stands already demonstrated. The only additional feature in our scheme is that it is meant to cover not only Government employees but all employees. This feature, however, does not make the scheme any the less practicable.

6.10.14. It has been said, and it will be said again that people will not like to be compelled to save or insure. While we have no doubt that a democracy should attempt to minimise or avoid compulsion we do see that a certain degree of compulsion or acquiescence in certain matters becomes inevitable in a modern welfare state even when it is wedded to a democratic way of life. It will easily be admitted that the American way of life is not particularly partial to compulsion and yet, in that country compulsory life insurance for certain sections of the employed population has been in existence and flourishing in the form of Old Age, Survivors and Disability Insurance. It may be argued that these are Social Security Schemes, whereas what is contemplated in our recommendation is compulsory self-provided insurance for employees. But we should point out that the American Schemes are not subsidised by the State. It is true that half of the premiums under the American Schemes are paid by the employer and half by the employee; but that does not make it an optional scheme or eliminate the degree of compulsion that we are referring to. In the Scheme of contributory insurance that we have suggested for industrial labour, we have already recommended compulsion on the American lines. We have also recommended a compulsory insurance scheme for all employed persons because we believe that the nationalisation of insurance has cast a definite responsibility on the L.I.C. to make insurance cover available to as many as possible and to bring it within the reach of as many as possible. A private insurance company is not charged with the mission of spreading insurance. It does insurance business for its own profits, and in so far as this requires increased new business, it indirectly spreads insurance. The case of the LIC is different. Again, the conditions in the U.K. and the U.S.A. are very different. Insurance has not been nationalised in these countries. It is not therefore fair or relevant to point out the absence of compulsory self-provided life insurance in the U.K. and the U.S.A., and argue that the L.I.C. should not evolve a scheme of this kind.

6.10.15. Any additional insurance that the employee may need beyond the maximum provided by the compulsory scheme will have to be canvassed by agents, and *will be at the ordinary rate* and not at the lower rate applicable to the compulsory scheme. This additional insurance will be somewhat like the present salary savings scheme. But since it will be superimposed on a compulsory scheme that places certain obligations of servicing on the employer, it will be free from its present drawbacks. Since no servicing will have to be done by the agent under this additional insurance, there will be no necessity to pay any renewal commission for it. *We recommend that after the introduction of the compulsory scheme no renewal commission should be paid for additional salary savings insurance.*

Impact of the Compulsory schemes on the expense level:

6.11.1. It may be argued that the rates of premium under the two schemes that we have suggested in paragraphs 6.10.1 and 6.10.6 will be considerably low in view of the substantially lower cost of insurance. Thus, under these schemes, both the expenses and the premiums will be low and ultimately there may be no appreciable reduction in the cost ratios. This, however, is not correct.

6.11.2. If the business under the compulsory life insurance scheme is considered as a class in itself, there will be no necessity to consider the new business cost ratio and the renewal cost ratio separately under it, since the special procuration cost will in its case be reduced to almost nil. The overall expense ratio might be a good enough index for this class. The experience of the State Insurance Schemes shows that their overall expense ratio does not exceed 12 per cent. Allowing for the fact that the Corporation, under its compulsory insurance scheme, will have to reimburse the employers for their expenses and that the Corporation will nautrally be expected to provide a better standard of servicing than State Insurance Schemes, it may be said that for this class by itself the overall expense ratio may not exceed 15 per cent, which is certainly a much lower level of expenses than the Corporation's present level indicated by a 27 per cent overall expense ratio.

6.11.3. Alternatively even if this class of business is taken into account, together with the other business of the Corporation, the combined cost ratios would be less. But in any proper expense analysis, such types of schemes, in which expenses are at a materially reduced rate than that applicable to the major types, will have to be separately dealt with, and we may, therefore, consider the effect our schemes will have on the cost ratios applicable to the major type. Firstly, it may be mentioned that some of the present surplus staff can be utilised for the purposes of these schemes and thus the same effect as will follow from absorption of the surplus staff in the work of increased business can be expected from our schemes too. Secondly, there is a very vital connection between the compulsory schemes and the cost ratios applicable even to the present business. But for this vital connection we would not have thought it necessary to deal with the subject matter of these schemes in this report. Since the Corporation is a monopolistic nationalised undertaking, it has got a dual responsibility, *viz.* spreading the message of life insurance to every nook and corner of India, and at the same time managing insurance business as economically as possible. Our study has convinced us that the Corporation's attempt to expand business in the time-honoured manner adopted by private enterprise in the belief that the cost of expansion will only retard the reduction of the experse ratio has led to an increase in the level of expenses. The reasons for the increase are many, and some of them are beyond the control of the Corporation. We, therefore, thought that the central problem before our Committee was to point out a way by which the national objective of spreading insurance can be achieved in an effective manner while reducing and not increasing the expense level. This cannot be done so long as the national objective is regarded as a by-product of the more expensive individual approach. As we have already explained, the procuration cost in the group approach, is very much lower than in the individual approach, and is almost nil in compulsory insurance. We have,

therefore, recommended the group approach as well as compulsory insurance as effective means for spreading insurance. Acceptance of these recommendations will make it unnecessary for the Corporation to rely exclusively on its present business-getting machinery for the growth of its business. It will not then have to fear a fall in its business and, therefore, resort to uneconomical steps, which in turn add to expenses without yielding any sustained progress. It will be free to adjust the cost of its business-getting machinery and control its expense level, even if the business that it gets through individual approach is subject to variations. This is what has prompted us to deal with the vital problem of looking for methods of procuration that will expand business without increasing the cost of procuration and the level of expenses.

Rural Business :

6.12.1. We shall now consider the progress that insurance has made in rural areas. In the early days of the Corporation, upto 1960, the necessity for building up reliable statistics of rural business does not appear to have been realised. The Estimates Committee made the following observations in 1960-61 :

> "55. As regards the progress made in rural areas, it was stated that a proper classification of rural business had not been made. This could be done only on the basis of residence of policy-holder, which involved tremendous amount of extra work and cost since the Corporation issued more than a million policies every year. The Corporation classified the business procured through Branches located in cities with population of one lakh or more as urban and from branches at other centres as rural. The volume of business secured from areas classified as rural on this basis for the years, 1957, 1958 and 1959 is shown below:

Year	*Total New Business (in crores of Rs.)	Urban New Business (in crores of Rs.)	% of (3) to (2)	Rural New Business (in crores of Rs.)	% of (5) to (2)
(1)	(2)	(3)	(4)	(5)	(6)
1957 . .	276·50	174·36	63	102·14	37
1958 . .	337·45	209·05	62	128·40	38
1959 . .	417·88	238·29	57	179·59	43

*The figures in columns (2), (3) and (5) relate to business in India only.

> "57. The Committee understand that from 1960 the Corporation has changed the previous basis and is now compiling figures of insurance business written from areas having a population of 20,000 and below as rural. The figures according to this classification are not yet available. The Committee

feel that it would be hardly realistic to view all areas having a population upto 20,000 as rural. The Chairman of the Corporation also informed the Committee that they were re-examining the basis of compiling these statistics. The Committee understand that for purposes of census the areas having a population of 5,000 and below are viewed as rural. They suggest that the same definition may be adopted by the Corporation and figures of rural business may be compiled and published separately in the Annual Reports of the Corporation. They do not appreciate different standards to be applied for determining what are rural areas for different purposes".

6.12.2. The Corporation adopted the suggestion of the Estimates Committee, and in 1961, decided to collect statistics for rural business, on the basis of the criteria laid down in the 1961 census for distinguishing rural and urban areas. A list of centres, regarded as urban in the 1961 census, was compiled and circulated to all offices, and they were advised that business emanating from the urban centres should be treated as urban business and that from other places as rural business.

6.12.3. We must here point out that the earlier circular that the Corporation had sent on the subject, had suggested that towns and cities with a population of 20,000 and over as per 1951 census should be treated as urban areas and the offices of the Corporation were advised that "in accordance with the current practice of the Corporation, *the place of medical examination* will determine whether the business has to be treated as urban or rural". However, when the definition was changed to suit the criteria laid down in the 1961 census, slightly different instructions were issued to the offices to the effect that "it has also been decided that the criterion for determining whether a policy is urban or rural in compiling New Business statistics, is *the usual place of residence* of the policyholder. The place of residence of the policyholder does not necssarily mean his native place. It may be the place where he works. Normally, the address given in the proposal form should be the basis for compilation".

6.12.4. There are, however, two addresses given in the proposal form, one the native place, and the other, the address to which the premium notices are to be sent. Generally, the address to which the premium notices are to be sent is the place where the policyholder works and, therefore, the place at which he ordinarily resides. It appears quite appropriate that the place of residence of the policyholder should, therefore, determine the character of his policy, rural or urban. Hence instructions that the Corporation issued in 1961 laid down a sound basis for the classification. But we are not sure whether these instructions are uniformly followed by all the branches. The information given to us during evidence indicated that at some branches, it was the native place, as against the place of usual residence, that was taken as the factor that determined whether a policy was rural, while at some other branches it was still the place where the medical examination was held. It is not clear how the non-medical business was classified at these 'some other branches'.

6.12.5. The proportion of the Corporation's new rural business both according to numbers and according to sums assured for each of the years from 1961 is given in the following table :—

TABLE 6·5.

Year	Proportion of the number of new policies issued in rural areas to the total number of policies issued. %	Proportion of the new sum assured in rural areas to the total new sum assured. %
1961	36·5	30·5
1962-63	38·5	31·8
1963-64	35·7	30·2
1964-65	36·2	28·7
1965-66	35·9	28·0
1966-67	36·0	28·7
1967-68	35·8	28·2

6.12.6. The figures for the years given above and the figures that appear in the Estimates Committee's table are not comparable. It appears *prima facie* that, using the terms, 'rural' and 'urban' in the sense of the 1961 definition, the urban business in branches located at places with a population of 1,00,000 or below will be very substantially larger than rural business transacted in branches located at places with a population of 1,00,000 or above. This difference is reflected in the excess of the figures for the proportion of rural new sums assured in the Estimates Committee's report over the corresponding figures in the post-1961 statistics of the Corporation. The proportion of 'rural' sums assured has been on an average about 39 per cent during 1957-59 according to the Estimates Committee's report, while since 1961, it has been about 29 per cent i.e., the difference between these two sets of figures is about 10 per cent of the total new sum assured, or just about 25 per cent of the figures in the

Estimates Committee's report. This figure of 10 per cent must be regarded as too small in view of the very wide difference between the 1957—59 basis and the new definition. The narrow margin of difference also goes to show that the statistics that have been compiled may not be quite accurate.

6.12.7. It must also be pointed out that all the available statistics relate to new business. No statistics have been compiled for business in force, though there is a general feeling, and some evidence too, that rural business—except that with the monthly mode of payment—lapses to a greater extent than urban business. In order that a proper assessment of the growth of insurance business in rural areas may be made, *we recommend that the Corporation should compile detailed statistics on the rural business in force.*

6.12.8. While judging the performance of the Corporation in this respect, it should be borne in mind that in rural areas, the need for life insurance is not as keenly felt as in urban areas, so far as covering the risk of death is concerned. Most of the well-to-do agriculturists feel that even after their death, the income from land will continue to accrue and so, there is no great need to cover the risk of death, unlike in the case of salaried workers, whose incomes are totally lost on the death of the bread-winner. It is also true that people in the villages prefer investments in physical assets (i.e. farm assets, buildings, live-stock, land, inventories, business machinery etc.), to investments in financial assets (i.e. currency, bank deposits, small savings, postal savings, life insurance etc.). In fact, the National Council of Applied Economic Research found during its surveys that in rural areas, the net investment in physical assets was about $2\frac{1}{2}$* times the net investment in financial assets. These reasons may account at least partially, for the slow progress that has been made in spreading life insurance in rural areas.

6.12.9. Another factor that must be taken into account is the capacity of the rural population to save. Most of our rural population consists of small land-owning farmers or land-less tenants They are not in a position to save enough and to pay insurance premiums with the regularity with which salaried people can pay. According to the NCAER survey, 1·6 per cent* of the rural households paid life insurance premium amounting to Rs. 21·56* crores in 1962. The total premium income of the L.I.C. in 1962 estimated for the purpose of Table 2·2 of Chapter II, was Rs. 126·46 crores. Thus, the premium paid by the rural households was about 17 per cent of the total premium in 1962. The NCAER survey includes villages with populations upto 10,000 among rural places whereas the Corporation's statistics are based on the 1961 Census definition of rural places which, though ordinarily covering villages with a population of only 5,000 or below, takes other factors into account. However, on the whole, taking into account the nature of the rural populations excluded from, or included in the NCAER survey, but included in, or excluded from, the Census definition, it appears that, from the point of view of the insured population, there may not be much difference between the proportions under the two definitions. We understand that the Corporation has

*See Tables 20, p. 70 of All India Rural Saving Survey, July, 1965.

estimated that the proportion of rural households now paying insurance premiums is less than 10 per cent. A rough calculation has put this percentage at about 5 per cent. In any case the fact remains that the progress of rural insurance has not been as fast as anticipated.

6.12.10. The Corporation, no doubt, has been taking steps to increase its rural business. These steps have included the extension of Non-Medical Schemes to rural areas (making it more easy for the rural population to take policies, without the difficulty of undergoing medical examination), the facility of paying premiums through Post Offices, the granting of certain concessions in premium payments, revival and death claims in areas and years affected by drought and floods, etc. Still the fact that the number of new rural policies even according to the Corporation is only about 36 per cent of the total indicates that the Corporation is encountering serious difficulties in spreading insurance in rural areas.

6.12.11. One often hears the argument that the slow progress of rural business is due to the low income of agriculturists and the fact that even this low income depends on the prospects of good crops, which in turn depend on timely monsoons. It is said that farmers therefore find it difficult to continue premium payments as and when they fall due. It may be easy for them to pay premia at the time of good crops, but difficulties arise when crops fail. This difficulty can, perhaps, be overcome if the Corporation can evolve a Special Scheme that allows the payment of premiums at irregular intervals. In the absence of such a scheme, the single premium endowment assurance would perhaps be a suitable insurance policy to sell among well-to-do agriculturists. Under this policy, only one premium has to be paid, and, therefore, there will be no possibility of any lapse. We are aware that the amount of the single premium will have to be fairly large if the death risk cover is to be of an appreciable size. The amount of the single premium may put this type of policy out of the reach of many agriculturists. This is why we are suggesting that the policy should be sold to well-to-do agriculturists. Under a single premium term insurance as against a single premium endowment assurance, a greater amount of death cover can be secured at a comparatively smaller single premium; but if the policyholder survives the term selected nothing will be available to him under the term insurance. To an agriculturist, for whom the urgency of a death cover is appreciably less, it would be difficult to sell a policy covering only death risk and without any element of investment in it. Thus a single premium term insurance policy may not prove popular. It may probably prove practicable to collect 5 or 6 single premiums within a period of say 10 years for successive endowment assurance, all maturing at the end of a period longer than, say 20 years from commencement so that an appreciable death cover as well as maturity benefit may be available to the policyholder. Such a policy may meet the special difficulties that agriculturists face. *We, therefore, recommend that the Corporation should take steps to popularise single premium endowment assurances among the agriculturists in the rural areas; the policyholder being approached often enough in a short period, after the issue of the first policy, to ensure that the total death cover under all the policies is of an appreciable size.*

6.12.12. It is sometimes suggested that the benefits of insurance should be brought home to the rural population by actually demonstrating how the

funds arising out of life insurance can be utilised to aid rural development. This is certainly a good idea; but the only medium through which the Corporation can indirectly take part in rural development is the State Government. We believe that it should be possible for the Corporation to advance loans to a State Government for a specific project of rural or agricultural development, provided a certain amount of life insurance premium is forthcoming from the rural area concerned. If such a step proves practicable, the Corporation would be achieving two objects simultaneously, aiding rural development and spreading life insurance in rural areas. The usual precautions that the Corporation takes in advancing loans to State Government for their development projects need not be relaxed in securing such life insurance business. *We recommend that the Corporation may explore the possibility of providing loans to State Governments for projects of rural and agricultural development in areas that provide a specified minimum of life insurance.*

6.12.13. We must here reiterate our belief that the group approach will be as effective in rural areas as in urban areas. But at present the scope for a group approach is considerably less in rural areas than in towns. Agriculture is not a large-scale organised industry. However rural areas are slowly being urbanised, and small scale industries are being established in rural areas as well. In fact our recommendation for compulsory insurance for the employed population will even now have some scope for being operative in rural areas. But as the degree of industrialisation increases in the rural areas and as the general educational standard improves, there will be increasing scope for insurance to spread to the rural areas.

Non-Medical Business:

6.13.1. Transacting business on a Non-Medical basis, without insisting on medical examination, but basing the selection on other evidences and additional information obtained from the proposer himself, makes it more convenient, both for the person insured and the Insurance Company. The Agent and the Development Officer too need not take the extra trouble of arranging for the medical examination. Even prior to the nationalisation of life insurance business in India, some of the big erstwhile insurers were operating non-medical schemes, upto a suitably fixed maximum sum assured and under certain Plans. The Corporation continued the then existing Non-Medical Schemes of the erstwhile insurers and made them applicable to male employees, aged 45 or below, of Government, Quasi-Government and reputed commercial organisations, upto a maximum sum assured of Rs. 3,000/- (including previous policies on the same life, taken on non-medical schemes). Such schemes, applicable as they were to some special groups of employees, have been designated as Non-Medical (Special) by the Corporation. But the Corporation took a major policy decision in this respect in 1960 and instituted a non-medical (General) Scheme, applicable to all areas—both rural and urban—upto a sum assured of Rs. 2,000/- for all male proposers aged 40 or below. The introduction of this general non-medical scheme deserves to be described as one of the achievements of the Corporation.

6.13.2. Later on, in the light of experience the Corporation has been increasing the limits of sum assured under both the Non-Medical Schemes. At present, under the Non-Medical (General) Scheme, policies are issued

upto a maximum sum assured of Rs. 4,000/-. Under the Non-Medical (Special) Scheme, the maximum limit is Rs. 7,500/-, for proposers aged 31 to 45. In the case of Officers of the Defence Forces, policies upto Rs. 10,000/- are issued on a Non-Medical basis.

6.13.3. The proportion of the number of non-medical policies in the total number of new policies issued in a year has increased from 33.8 per cent in 1961 to 46.7 per cent in 1967-68. The proportion was the highest in the Southern Zone, and lowest in the Northern Zone. We understand from the Corporation that a recent investigation of the mortality experience of lives assured in India under Non-Medical Schemes, showed that the mortality experienced by such lives did not, as a whole, compare unfavourably with the mortality experienced by medically examined cases. The Corporation has, however, stated "..........since the non-medical schemes are introduced only recently, and only a limited experience could be investigated, firm conclusions could not be drawn till these are confirmed by subsequent experience". We may add here that the introduction and extension of non-medical business has helped the Corporation to reduce its medical fees cost. Whereas the ratio of the medical fees to the first year premium (including single premium) was 6.30 per cent in 1959, it was only 2.68 per cent in 1967-68.

6.13.4. The present limit of Rs. 4,000/- for Non-Medical (General) Scheme, was fixed in 1966-67, when the average sum assured under new policies was Rs. 5,456/-. In 1967-68, this average sum assured per policy increased to Rs. 5,913/-, and the latest figure is probably even higher. It also appears to us that there will be a number of policies for Rs. 5,000/- sum assured, since this represents a neat round figure. The fees for medical examination upto a sum assured of Rs. 4,999/- is Rs. 8/- only, while the medical fee for Sum Assured of Rs. 5,000/- is Rs. 12/-. The extension of the Non-Medical (General) Scheme limit upto Rs. 5,000/- would, therefore, result in greater savings in medical fees, and yet, it may not add any extra burden in the number of claims. If non-medical mortality experience favours the extension of the limit up to Rs. 4,000/-, the difference between Rs. 4,000/- and Rs. 5,000/- is probably small enough for the same mortality experience to permit the further extension upto Rs. 5,000/-. *We, therefore, recommend that the Corporation should increase the Non-Medical (General) Limit to Rs. 5,000/--. For similar reasons, we recommend that the Non-Medical (Special) limit may be increased to Rs.* 10,000/-.

6.13.5. The present limit for Non-Medical (Special) for Officers of the Defence Forces is Rs. 10,000/-. It is well-known that officers and jawans of the defence forces have periodical medical check-ups and are required to keep themselves fit for field duties. We understand that the Corporation is extending the facility of Non-Medical (Special) Scheme only to those officers and jawans who have been classified as A-1 at the previous medical check-up. In view of these safeguards, *we recommend that the Non-Medical (Special) limit for defence personnel may be raised immediately to Rs.* 20,000/-.

Potential for Insurance:

6.14.1. It is often said that the Corporation's aim should be to insure every person in the country. This can only mean that it should make insurance cover available to every person who needs and has the capacity to pay for insurance. The Corporation can enlarge the class of people who may seek benefit from insurance by constantly looking for and catering for the different kinds of needs that can be satisfied through the medium of insurance. Having identified these needs, the Corporation can issue special types of policies to satisfy them. But, so far as the number of people who have the capacity to pay for insurance is concerned, all that the Corporation can do is to charge as low a premium as possible, thus ensuring that insurance is within the reach of the maximum number of people. An attempt has been made in the following paragraph to make a rough estimate of the upper limit to the number of households that can be reasonably regarded as capable of paying for the benefit of insurance.

6.14.2. The following figures give the current broad estimates of the population and the number of households in the country:

Estimated population	50 crores.
Estimated urban population	10 crores.
Estimated rural population	40 crores.
Estimated urban households	2 crores.
Estimated rural households	8 crores.

Some data about the percentage of households with annual income not less than Rs. 1,000/-, Rs. 1,500/-, Rs. 2,000|- and Rs. 2,500|- are given in columns (2) and (3) of the following table. These are based on tables 3.7 and 3.9 (pages 70 and 72) of the report of the Committee on Distribution of Income and Level of Living (Part-I). On the assumption that these data which relate to 1960, are applicable to-day the number of households (rural, urban and total) now having an annual income not less than the figure in column (1) are calculated and shown in columns (4), (5) and (6).

TABLE 6·6.

Annual income of the household. Rs.	Percentage of households in 1960 having an annual income equal to or above the figure indicated in Col. (1)		No. of present households in lakhs with an annual income not less than the figure in col. (1) on the assumption that the 1960 distribution in columns (2) and (3) is applicable today.		
	Rural	Urban	Rural	Urban	Total
(1)	(2)	(3)	(4)	(5)	(6)
1,000 . .	38·6	57·5	3,09	1,15	4,24
1,500 . .	17·3	33·7	1,38	67	2,05
2,000 . .	13·1	25·0	1,05	50	1,55
2,500 . .	6·4	16·0	51	32	83

6.14.3. Conditions now are different from what they were in 1960. The number of households has increased, but the total income of households has also increased. The standard to judge the capacity to pay for the cost of insurance has also become higher than what it was in 1960, on account of the rise in prices. It has not been possible for us to collect any information about the total effect of all these factors. It may, however, be assumed that the proportion in which the *per capita* income at *constant* prices has risen between 1960-61 and now, represents on the whole the proportion of the *real* rise (after allowing for the change in prices) in the 1960-61 level of income of households. This *real* rise may be taken as indicating the same capacity to save as in 1960-61. The proportion referred to above was only about 1 per cent in 1966-67, on the basis of the quick estimate available for that year. What this proportion is today, it is not known. However, what is being estimated here is only *the upper limit* to the number of households who may be expected to now have the capacity to save for insurance. So, on points about which no reliable information is available, it would do if we make such assumptions that no other reasonable assumption will give us a higher estimate. We may, therefore, proceed on the basis that—

(i) the present level of per capita income at constant prices is not higher than the 1960-61 level by more than, say, 10 per cent;

(ii) the percentages in columns (2) and (3) apply to the present households with the corresponding figures in column (1) increased by the maximum percentage, i.e. 10 per cent, in the above assumption; and

(iii) the level of minimum income indicating the capacity to pay for insurance is the same for urban areas as for rural areas.

It may now be said that if the percentage of household with an annual income of, say, Rs. 1,500/- or above in the above table represented the percentage having the capacity to pay for insurance in 1960, than the percentage in the above table for an income of about 90 per cent of Rs. 1,500/- represents the *present* percentage of households who may be taken to have the capacity to pay for insurance. Whether the figure of Rs. 1,500/- is appropriate in this connection or some other higher figure has to be taken is a matter of opinion. However, it appears from column (6) in the above table that, the number of households (both rural and urban) that *at present have* the capacity to pay for insurance is not more than about 3 crores.

6.14.4. It is true that an estimate based on so many assumptions is not very useful. However, some idea of the potential at a given time is necessary to enable one to evaluate the progress of the business of the L.I.C., particularly interms of the number of lives insured. It is with the objective that we have tried in the above paragraph to give some idea of the potential as it could be obtained with such data as was easily available and on such assumptions as appeared to be not unreasonable under the circumstances.

6.14.5. It may be interesting to know the number of households that are at present insured with the L.I.C. If one is to judge by the number of policies in force on 31.3.68, after making some broad allowance for more than one policy on the same life or for more than one insured in the same household, it may be estimated that the number of insured households at

present may be of the order of 60 to 80 lakhs. There can therefore be no doubt that there is still ample scope for increase in insurance business. The scope at any particular moment is determined by various economic factors.

Fiscal Concessions

6.15.1. While assessing the performance of the Corporation, it will be necessary to take into account the additional advantage that the Corporation enjoyed during this period as also the high degree of competition the Corporation had to face from similar agencies, competing to attract the savings of the population. When the Corporation was established, the amounts paid from the taxable income of an assessee by way of life insurance premium on his own life or on the life of the wife or the husband of the assessee were eligible for tax rebate, at the average rate of tax, borne on the taxable income. The limit of relief under any one policy was restricted to 1/10th of the sum assured, except under deferred annuities. The maximum amount eligible for relief under life insurance premia, provident fund contributions and contribution to superannuation fund that all taken together, was Rs. 8,000/- or 1/5th of the total income in the case of individuals, whichever is less. The limit was higher in the case of Hindu Undivided Families. Subsequently, the maximum allowed for income tax rebate has been increased, more than once. Since 1962-63, special treatment has been accorded to authors, playwrights, artists, musicians and actors, in whose case the maximum allowed for income tax rebate was raised to 33-1/3 per cent of his professional income plus 25 per cent of his other income or Rs. 10,000/- plus 8-1/3 per cent of his professional income whichever is lower, subject to a maximum of Rs. 15,000/-. Since it is unlikely that persons in these professions may be contributing to Provident Funds or Superannuation Funds, the concession practically applied to life insurance premiums only.

6.15.2. The concessions in respect of life insurance premia, have been progressively liberalised, as a result of which substantial tax relief is now available to persons paying life insurance premia. The Finance Act, 1965 made a radical change in the method of allowing rebate on life insurance premium. It prescribed that 60 per cent of the premium etc. upto Rs 5,000/- and 50 per cent of the excess over Rs. 5,000/- should be deducted from the total income subject to a certain maximum, which at present is Rs. 15,000/- or 30 per cent of the gross total income, whichever is less, for individuals other than those belonging to the above professions. It is clear that greater income tax relief is now available in respect of life insurance premiums and to this extent, life insurance has become more

attractive. This has certainly contributed to increase in new business of the Corporation.

6.15.3. The following Table shows the present position of tax savings that policyholders in the different income brackets are entitled to. The figures in the Table are for individuals with more than one dependent child.

TABLE 6·7

(Assessment Year 1969 — 1970)

Income	Maximum Life Insurance Premium* admissible for rebate.	Saving in income tax.	Tax saving as a percentage of the total tax otherwise payable.
(1)	(2)	(3)	(4)
Rs.	Rs.	Rs.	%
5,000 . . .	1,500	11	100·0
10,000 . . .	3,000	198	35·3
20,000	6,000	770	31·0
40,000	12,000	3,575	30·2
60,000	15,000	5,280	22·1
1,00,000	15,000	5,720	11·0

*The figures in Column (2) are not intended to suggest that persons with income in Column (1) would necessarily be taking insurance upto the limits given in Column (2).

6.15.4. Life Insurance Policies also attract various reliefs under Estate Duty, Wealth Tax and Gift Tax. It is true that the number of persons who will be required to pay these taxes, is not many, but the availability of these fiscal concessions does make it possible for life insurance to be sold with greater ease among this section of the community.

6.15.5. The consideration that qualifies life insurance premiums to income tax concessions is the fact that premiums are meant to cover the risk of death. Provident Fund contribution, superannuation fund contributions or Cumulative Time Deposits, are also entitled to tax concessions, but on the ground that the money thus saved and deposited cannot be withdrawn at all or at least easily or for a definite period. Thus Income Tax concessions are available for Cumulative Time Deposits only when the deposits are for a minimum period of 10 years. Our attention has been drawn to the fact that certain life insurance policies, which do not have either of the characteristics that have been cited above, and which are more or less like banking transactions, have also been made eligible for income tax relief. Particular mention may be made of Pure Endowment policies and Deferred Annuity policies, where the benefit on death during the terms of deferment is only the return of premiums and at the expiry of the term, the full cash value of the benefits. Obviously, there is no life

risk involved in such policies. Moreover, we understand that after 2 years of issue surrender values upto 90 per cent of the premiums paid are available under these policies. Thus the premiums paid under these policies do not have the characteristics of savings which cannot be easily withdrawn. It is, therefore, clear that these policies are more or less in the nature of a banking transaction, and probably are not meant for any protection, except when they are not surrendered. We feel that it should not be possible for any one to take such policies with a view to avoiding income tax. *On the analogy of the Cumulative Time Deposit Scheme, we, therefore, recommend that income tax concessions should be available under Pure-Endowment or Deferred Annuity only if the term is not less than* 10 *years, and in the case of such policies for* 10 *or more years, the surrender value should be included in the taxable income, if the policy is surrendered within* 10 *years.*

6.15.6. In evaluating the effect of the competition that the Corporation has had to face in mobilising the nation's savings, we must refer to the following competing agencies: Unit Trust of India, Cumulative Time Deposit, National Savings Scheme and Annuity Deposit Scheme. The Annuity Deposit Scheme has since been withdrawn. The Postal Insurance Department cannot be described as a real competitor in the field of insurance, since it is confined only to Government employees, and even among them, it does not actively canvass through agents or other canvassing staff, but only caters to the needs of those who care to approach it. The State Insurance Funds that some of the States have instituted are also not serious competitors, since they insure only the State Government servants, and that too, up to a limited extent.

6.15.7. No doubt, none of the Three Schemes, *viz.* Unit Trust, Cumulative Time Deposit and National Savings gives protection against the risk of death, which the Corporation alone can give. Yet it is an unfortunate fact that the value of insurance as a cover against the risk of death is not sufficiently realised by the insuring public in India. There is a strong tendency to look upon insurance more as an investment than as a protective cover: Group and Compulsory Insurance may to a certain extent counteract this tendency. But, so long as insurance continues to be looked upon as an investment, the fact that the three competing agencies mentioned above give higher rates of interest will continue to weigh in their favour, and against the Corporation. The Unit Trust at present gives a return of 7 per cent tax-free, which on the basis of the present tax rate, works out to 8.4 per cent, for a person with an income between Rs. 10,000 to Rs. 15,000/-. The National Savings Certificate gives a return of 6 per cent compound. The 10 year Cumulative Time Deposit gives an interest of 4.5 per cent compound, taking the bonus into consideration. As against this, a single premium without profit Endowment policy, at age 30, gives a yield at maturity of only 2.5 per cent compound after making allowance for the cost of death cover. At the same age at entry, the yield on a 10 year With Profit Endowment Policy continued upto maturity, works out to 3 per cent compound (assuming that bonuses will remain at the present level of 16 per thousand sum assured) after making allowance for the cost of death cover.

6.15.8. Yet another factor that acts as a disincentive is the effect of inflation. Inflation erodes the value of money, and therefore of the real value of the sum assured payable at maturity. It can certainly be said that the policyholder pays his premiums in instalments, and thus the extent of erosion is less in respect of premiums paid in later years. This certainly mitigates the degree of the adverse effect of inflation; but it is still there. This is a feature which reduces the ability of insurance to attract the savings of the community. Some insurance companies in the U.K. tried to get over this difficulty by issuing what are known as "Unit linked contracts". Under these contracts, a major portion of the premiums paid (after deducting cost of cover etc.) are invested in units of a Unit Trust, and the sum assured is also made payable in the same units. It is expected that the Trust issuing the units would invest the money judiciously, so that the value of the units goes up and ultimately, when the sum assured is paid in units quoting at a higher price, the effect of inflation is mitigated, and the real value of the benefits maintained.

6.15.9. We are aware that there may be difficulties in introducing a similar plan in India. Firstly the Corporation cannot invest in the Units of the Unit Trust of India. Secondly the price of the unit is not varying according to the cost of living index. At present the Unit Trust is only aiming at giving a higher yield to the unit-holders. Even if the Corporation is permitted to invest a portion of its funds in Units, it is doubtful whether, after payment of income tax, it will make any appreciable difference to the net yield realised by the Corporation. In India, the prices of equity shares too are not always moving in sympathy with the cost of living index. So the plan of issuing equity-linked contracts instead of unit-linked contracts does not also hold any more promise of success, even assuming that the Corporation is allowed to invest all the funds arising out of the premiums under such contracts in equities. If the prices of the equities fall, it will be very difficult to convince the buyers of the equity-linked contracts that it was as much a part of their bargain to take less value for the premiums they paid as to take more.

6.15.10. We understand that a proposal to allow the Unit Trust to issue insurance-linked units is now under consideration. Under this proposal, a temporary insurance cover will be provided for the unit holder through the L.I.C. But it is likely that such a proposal will have an adverse effect on the endowment assurance business of the L.I.C. The L.I.C. cannot earn as high a net rate of interest as the Unit Trust because there are no restrictions, as in the case of the L.I.C. on the investments of the Unit Trust and further its income is free from taxation, whereas the Corporation has to pay income tax. It is thus no fault of the L.I.C. that it is unable to earn a high net rate of interest, and make its endowment assurance as attractive as an insurance-linked unit. The Unit Trust and the L.I.C. are both public undertakings. It should therefore be possible to ensure that the proposal to issue insurance-linked units does not adversely affect the interests of the L.I.C. *We, therefore, recommend that the feasibility of permitting the L.I.C. to issue unit-linked policies should be examined before proceeding further with the proposal to issue insurance-linked units.*

6.15.11. We understand that in Israel, the Government has issued index-linked securities that guarantee a certain rate of interest. The face value of these securities increases according to the cost of living (C. O. L.) index. These securities cannot be purchased by the public, but are meant for certain institutions like life insurance companies. Index-linked policies are issued to the public. Under these policies, the premium to be paid increases in proportion to the C.O.L. index. Companies are obliged by law to invest 100 per cent of their reserves under these policies in index-linked securities issued by Government. When claims arise under these policies, the claim amount is also paid on the basis of the C.O.L. index. This of course gives full protection to the policyholder against inflation, and brings home to him that for such full protection he has to pay an increasing premium in a period of inflation. In Israel, insurance is not nationalised and yet the companies there have been able to solve this problem with the help of Government. In India, where the L.I.C. is a public undertaking, and has to work within the broad framework of Government's financial policy, a satisfactory solution can and should be found. *We, therefore, recommend that the L.I.C. should immediately examine the feasibility of issuing index-linked policies and investing the entire reserves under such policies in index-linked securities to be issued by Government. We also recommend that the Government may consider the feasibility of issuing index-linked securities that can provide the necessary support to the index-linked policies that the L.I.C. may decide to issue.*

Uneven Distribution of Business:

6.16.1. It has been a well-known feature of the insurance industry that the distribution of New Business is not uniform over the year. The following Table gives the percentage of new sum assured, completed in the months of December and March, to the total new sum assured of the year from 1960 to 1967-68.

TABLE 6·8

	1960	1961	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68
	%	%	%	%	%	%	%	%
December .	46·8	45·5	28·1	20·1	22·9	21·4	12·6	18·2
March .	3·5	3·2	18·6	19·3	20·9	23·7	24·6	21·6
	50·3	48·7	46·7	39·4	43·8	45·1	37·2	39·8

It will be observed from the above Table that while in 1960 and 1961, December alone represented the peak month accounting for almost ½ of the new business written during the year, there have been two peaks, December and March, from 1962-63 onwards. This is due to the fact that in 1962-63, when the financial year was changed, Development Officers were given the option to have their assessment year ending either

in December or in March, and quite a number of them exercised the option in favour of March. The uneven distribution may be due to the fact that the Development Officers put in the maximum efforts, just before the end of the assessment year, and that a very high percentage of Development Officers are appraised on the basis of the calendar year or financial year; i.e. by the end of December or March. Such an uneven distribution of business means a great strain on the administration, resulting in a lot of imbalance in the day-to-day working of the Corporation. Work may have to be done overtime to see that there are no arrears. Unfortunately, the amount of overtime spent for this pupose, is not separately available. Moreover, such heavy year-end business is likely to include some business of poor quality, or even bogus business. Both these features adversely affect the expense level, one by directly increasing expenses, and the other by retarding the growth in the renewal premium, that would have resulted if the business were of good quality.

6.16.2. We understand that the Corporation has taken some steps to check this uneven flow of new business. For instance, if a Development Officer completes half of his business during the first eight months, he need show only an increase of 25 per cent, instead of 30 per cent (in the case of others), over the last year's new business of his organisation to be eligible for multiple increments. The appraisal years of *new* Development Officers are spread over all the months of the year, and business competitions are held in different Branches and Divisions in the slack seasons of the year. All these steps have reduced the proportion of business completed in the months of December and March from 50 per cent in 1960 to 40 per cent in 1967-68. Even so, as the proportion of business done during these two months is still on the high side, *the Committee recommend that the appraisal years of agents and Development Officers should be spread evenly throughout the year.* Under our scheme of incentives discussed in another chapter, appraisal has to be made only for finding the cost ratio and the bonus commission due. It should therefore not create any difficulty in changing even the existing appraisal years. There may be some additional work involved in calculating the cost ratio of Development Officer since in any one *new* appraisal year two rates of salary may happen to be applicable. But the advantages of the change-over far outweigh the expense that this small additional work may entail. During the transition, agents or Development Officers may be allowed to complete a specially adjusted quota over a period slightly longer or slightly shorter than a year.

CHAPTER VII

PERSONNEL

7.1.1. *Cast.*—We have already pointed out that the largest single item in the "expenses of management" of the L.I.C. is "Salaries and allowances to various categories of Staff". The expenses under this item include:—

(a) Basic Pay.

(b) Dearness Allowance.

(c) Other allowances like House Rent and Conveyance allowances.

(d) Bonus.

(e) Bonus commission to Development Officers, and

(f) Corporation's contribution to Provident Fund and Pension Fund.

7.1.2. The size and growth of expenses under the above heads and their proportion to the total expenses of management for each of the years from 1958 can be seen from the following table:—

TABLE 7·1

(Amount in thousands)

Year	Total Salaries etc. of personnel	Total management expenses of the Corporation	Total 'salaries etc.' as p.c. of total expenses of Management.
	Rs.	Rs.	Rs.
1958	10,75,69	21,36,28	50·4
1959	11,61,77	24,35,79	47·7
1960	13,42,32	27,74,78	48·4
1961	14,97,71	31,58,87	47·4
1962-63 (15 months)	22,10,99	44,28,54	49·9
1963-64	19,71,47	40,29,44	48·9
1964-65	22,89,49	44,69,92	51·2
1965-66	26,02,42	49,52,63	52·6
1966-67	29,43,96	54,61,01	53·9
1967-68	31,61,36	58,61,61	53·9

7.1.3. The "personnel" cost that this table indicates has never been below 47% during the period 1958-68, the peak figure being 54 per cent for the latest years, 1966-67 and 1967-68 (Appendix 6). A look at this table will therefore, convince anyone of the need to subject the details of the "Costs" under this head to a close scrutiny.

7.1.4. The "Personnel" of the Corporation fall under four classes:—

Class I	Officers.
Class II	Development Officers.
Class III	Supervisory and clerical staff.
and Class IV	Sub Staff.

7.1.5. The duties of Development Officers relate mainly to Development of new business, whereas the other categories of "personnel" are mainly concerned with the work of administration. We have, therefore, dealt with Development Officers (Class II Officers) in a separate chapter. The discussion in this chapter on "Personnel" will be confined to the three other classes of personnel, *viz*. Classes I, III and IV—Officers and staff.

7.2.1. *Growth*.—The number and the "salaries and other emoluments" of each of the three classes, of personnel,—*viz*., I, III and IV, are shown separately in the following Table:—

TABLE 7·2

Staff in different Categories—Life Business in India.

(Amount in Crores of Rs.)

Year	Class I		Class III		Class IV			Amount Rs.
	No. at the end of the year	Amount Rs.	No. at the end of the year	Amount Rs.	No. at the end of the year	Amount Rs.	Total No. at the end of the year	
1958 . .	1432	1·27	22994	6·18	5544	·72	29970	8·17
1959 . .	1479	1·43	24652	6·51	6022	·71	32153	8·65
1960 . .	1852	1·72	26706	7·35	5878	·85	34436	9·92
1961 . .	2162	1·96	28625	8·15	5933	·93	36720	11·04
1962-63 . .	2495	2·81	30915	12·46	6462	1·38	39872	16·65
1963-64 . .	2751	2·44	31624	10·52	6665	1·15	41040	14·11
1964-65 . .	2747	3·10	32218	12·06	6768	1·38	41733	16·54
1965-66 . .	2833	3·26	32558	13·86	6853	1·57	42244	18·69
1966-67 . .	2910	3·43	32935	15·35	6927	1·78	42772	20·56
1967-68 . .	2977	3·79	32679	17·30	6966	2·03	42622	23·12

7.2.2. It can be seen that this table gives the particulars of the staff only from 1958. It was only in that year that the present categories came to be clearly distinguished. We have, however, been told that the strength of Classes I, III and IV staff, as on 1st September, 1956 and 31st December, 1957, according to the classification that existed at that time, was:—

	Class I	Class III	Class IV	Total
1-9-1956	903	16,100	4,709	21,712
31-12-1957	1,038	19,588	4,920	25,546

The average increase per annum for the period upto 31st March, 1968 for each of the Classes I, III and IV, has been 245, 2279 and 270 respectively, whereas the corresponding average for the subsequent period upto 31st March, 1968 has been 96,353 and 101 respectively.

7.2.3. Though it may be argued that the growth of business from year to year might *prima facie* necessitate an increase in the strength of the personnel under various classes, it may not be possible or desirable to come to any valid conclusions without clearly distinguishing the functions that have been assigned to these classes and examining whether an increase in staff was required to meet the increase in business.

7.2.4. We shall now deal with each one of the classes.

7.2.5. *Class I.*—The scales of pay of the Class I Officers are the following:—

(*a*) Asstt. Branch Managers/Asstt. Administrative Officers. Rs. 400—25—450—30—750

(*b*) Branch Managers/Administrative Officers/Asstt. Internal Auditors Rs. 575—35—750—40—1030

(*c*) Asstt. Divisional Managers/Senior Branch Managers/Asstt. Secretaries at the Central and Zonal Offices . . . Rs. 700—50—1300—60—1480

(*d*) Divisional Managers/Internal Auditors/Secretaries at the Zonal Offices/Deputy Secretaries at the Central Office . . . Rs. 1100—50—1300—60—1600—100—1800

(*e*) Deputy Zonal Managers/Senior Divisional Managers/Secretaries at the Central Office . . . Rs. 1300—60—1600—100—2000

(*f*) ZONAL MANAGERS/EXECUTIVE DIRECTORS

(1) In respect of appointment made before 30th May, 1960, Rs. 1800—100—2000—125—3000.

(2 In respect of subsequent appointments :

Ordinary scale . . . Rs. 1800—100—2000—125—2500

Selection scale . . . Rs. 2500—125—3000

MANAGING DIRECTORS . Rs. 3,2500

7.2.6. The variety of the scales of pay listed above, shows that even among Class I Officers there is considerable disparity in salaries. This may probably indicate and account for the difference in the extent of responsibility entrusted to them. It appears rather incongruous that officers with such wide disparities in pay and responsibility etc., should be classed together as 'Class I Officers'. *We, therefore, recommend that Officers of the rank of Divisional Managers and above be brought under a separate cadre with an appropriate designation, e.g. cadre of Executives, while others continue to be referred to as 'Class I Officers'.*

7.2.7. It appears to us that the work that an Asstt. Administrative Officer does is very similar to what an Administrative Officer is expected to do. Most, if not all, of the Administrative Officers come from the ranks of Asstt. Administrative Officers. If, therefore, the Adm. Officers' grade is abolished and the A.A.O. is suitably re-designated, there would be some economy. However, the Committee is also aware that this step might reduce the prospects of promotion that the present A.A.O.'s have. We have no doubt that every employee and cadre of employees must be assured of adequate prospects for promotion if efficiency and enthusiasm are not to wane and wither away. We would not, therefore, suggest the immediate abolition of a cadre if that step might adversely effect the prospects of any group of employees. *We, therefore, recommend that the Corporation may examine whether the cadre of Administrative Officers can be abolished without impairing the promotional prospects of subordinate cadres and/or increasing the expenditure on these cadres.*

7.2.8. The number of Officers of the cadre of Asstt. Branch Manager (D), Branch Manager, Senior Branch Manager, Divisional Manager and Senior Divisional Manager, in charge of various offices, will depend upon the number of offices and the growth of business. For certain activities, such as, training of agents and administrative staff, training of officers, Inspection and Internal Audit, Publicity, construction of building, O.Y.H. Scheme loans, etc. the nature of work is such that a good number of Class I Officers is necessary. Apart from these categories, the functions of other officers, mostly Junior Officers are generally supervisory in character, and their work is related to the number of staff members under their supervision. It must be pointed out that the strength of this group of officers will be influenced by the method of work that is actually adopted in the offices.

7.2.9. We have already observed that the strength of Class I Officers has increased from 1038 on 1st January 1958 to 2977 on 31st March 1968. The Corporation has cited the following as the reasons for this increase.

1. Growth in the volume of new business and business in force, and consequently in the number of Class III personnel that has to be supervised by Class I Officers.

2. Opening of a large number of new Branch Offices, Sub Offices and Development Centres for the purpose of spreading insurance to all corners of the country. This required the appointment of 800 additional

officers (the number of Branches increased from 195 to 414 and the number of sub offices from 45 to 135. 152 new Development Centres were working on 31st March, 1968 as compared to nil on 31st December, 1957).

3. Many new, important and essential activities such as training of Agents and administrative staff, training of officers, Inspection and internal Audit, Publicity, construction of buildings, O.Y.H. Scheme, loans, etc. which require the services of a good number of Class I Officers were initiated or expanded by the L.I.C. in this period. The number of officers employed in these new activities was estimated at about 300.

4. Experience showed that it was desirable to entrust the supervision of a department or a section to an Asstt. Administrative Officer in Class I since the competence and calibre of these officers were much higher than those of a Superintendent who belonged to the Class III category.

7.2.10. *Class III Personnel.*—The following are the grades that exist for Class III personnel today:—

Assistant	Rs. 130—5————etc. 370
Section Head . . .	The scale as Assistant with a special pay of Rs. 30 in the first five years of service going upto Rs. 40 in the eleventh year and above of service as Section Head.
Higher Grade Assistant. . .	Rs. 190—10—260—EB—15—440—20—480
Superintendent	Rs. 250—20—550—25—575

7.2.11. The duties and Financial Powers of a Superintendent and an A.A.O. are exactly the same. As already pointed out the Corporation feels that the A.A.Os. have higher competence than the Superintendents. But the A.A.Os., on the average, draw less than an average Superintendent (who is eligible for overtime allowance, bonus at a higher rate and Dearness Allowance linked with cost of living) receives. *We, therefore, recommend that the Corporation may examine whether the post of Superintendent can be abolished in due course without impairing the promotional prospects of the employees of subordinate cadres in Class III.*

7.2.12. In contrast to the position of Class I Officers, the increase in the strength of Class III staff in all offices, except the Zonal and Central Offices, can be said to have been influenced by the increase in new business and business in force. The total strength of Class III increased from 19,588 on 1st January, 1958 to 32,935 on 31st March, 1967, and declined slightly to reach 32,679 on 31st March, 1968.

7.2.13. It is difficult to assess the extent of surplus staff in this category by examining the new business staff per thousand new policies or the remaining staff per thousand policies in force at the beginning of each year. Such a procedure will require assumptions to be made in respect of, among other things, the proportion of the New Business staff and the remaining staff in the total staff. This is as difficult a problem as allocating

common expenses to "first year" and "renewal". It is also doubtful whether the strength of the *total* staff depends upon the number of policies. For instance, the staff of the Development Department has no direct connection with the number of policies issued. Again whether the amount of work in connection with policies has been the same all throughout, and whether the proportion of the amount of work done with the help of machines has remained unchanged are also points that will have to be considered in this connection. It is known that arrears are increasing in some offices day by day. This can only mean one of two things,—either, on an average less work is being done per day in connection with any one policy or the work per policy has increased. Further, it will have to be admitted that though mechanisation has not reached planned levels, the degree of mechanisation has certainly increased.

7.3.1. *Surplus Staff.*—We must recall that, during the debate on the Life Insurance Corporation Bill several Members of Parliament were anxious to see that nationalization did not result in loss of employment or reduction in emoluments to the full-time employees of the erstwhile Insurers. There was a clear consensus that any rationalization arising out of the amalgamation of the erstwhile Insurers should not create an unemployment problem. There were some members who expressed the view that even the full-time employees of Chief Agents of the Insurers should be absorbed by the Corporation. It may be useful to recall what the then Finance Minister stated in the Parliament.

> "Many honourable members have, I think, rightly been concerned about the employees and the terms and conditions of their pay. I do not believe that the process of nationalisation held any threat to any normal or ordinary employees of the Corporation. It is our desire to see that all the staff that we have is gradually absorbed in expanding business rather than to retrench now and try to get hold of these experienced people afterwards when we hope business will expand". (20th March, 1956, Page 3122 of Lok Sabha Debate).

7.3.2. The Hon'ble Minister seemed to be aware of the possibility that the Corporation might inherit a staff larger than what was necessary for its immediate requirements. In fact, this suggestion was even explicitly stated in Parliament in another context. It was as a matter of policy that the Government decided that the entire staff of the previous Insurers should be continued in the Corporation, irrespective of the immediate requirements of the Corporation.

7.3.3. While the Minister's observations conveyed only a broad indication that there would be a surplus in all categories of personnel consequent on the bringing together of the personnel of several insurers under one Institution, no numerical measure of the size of the surplus was evidently worked out at that time. We wanted to know from the Corporation what they thought might have been the extent of surplus staff as at Ist September, 1956, in the light of the Finance Minister's statement and the methods used for assessment. The Corporation replied as follows:

> "We do not know on what basis the then Minister of Finance had made the statement that because of the amalgamation of all the companies the staff inherited by the Corporation would

be surplus. It will be appreciated that this statement was made months before the Corporation came into being."

It would, therefore, appear to us that no efforts were made to assess the extent of surplus either before or soon after the L.I.C. commenced its work. If such a study had been conducted, the L.I.C. might have been able to identify and utilize the surplus in the new offices that were opened after the establishment of the Corporation. Moreover, there might have been obstacles in the way of transferring surplus staff from the places where the erstwhile insurers had offices to the new places where the Corporation was establishing new branch and Divisional Offices. Due to all these difficulties, the surplus staff existing on the date of the establishment of the Corporation might not have been put to full and effective use, and this might have added to the avoidable expenses of management.

7.3.4. Though the Corporation started with surplus personnel, we find that year after year fresh recruitment took place, thus increasing the staff strength. This would have been reasonable if the requirements of the new offices had been properly measured, and the mobile "surplus" available taken into account. Recruitment could then have been restricted to the excess of such requirements over the available surplus. However, upto 1959 the Corporation did not have any standard to measure the cadre strength for Class I Officers, and it was only in 1960-61 that some standards for determining the cadre strength of Class III staff were fixed for the first time. Even these standards were not based on any scientific study. They were not even uniform standards, since different standards were fixed for different Zones.

7.3.5. More comprehensive standards for determining cadre strength were evolved in 1966 on the basis of a study that the O & M Department made in 1965. The formula of the O & M Department was based on some approximate calculations regarding the work loads in the various departments. The Director (Personnel) of the Corporation, in his evidence, stated that no scientific study had been made and whatever standards had been adopted had been fixed more by rule of thumb. It would thus be seen that the staff requirements of various offices were not worked out on a scientific basis at any time, and yet, new recruitment was made year after year on the basis of rough and ready or unreliable basis of assessment. Under the circumstances, it is reasonable to conclude that the Corporation has continued to carry a surplus of staff.

7.3.6. In the course of the discussions that we had with various officers of the Corporation, we tried to ascertain the individual estimates that they themselves could make of the extent of surplus staff in the Corporation. The Federation of Class I Officers stated in their evidence that there was surplus staff in all categories. When we requested them to give us an idea of the extent of surplus, they stated that with the present staff, the Corporation should be capable of handling around Rs. 1,000 (Rupees one thousand) crores new business and correspondingly increased business in force, provided the out put of staff could be increased to what it used to be prior to nationalisation. From their evidence we could infer that the extent of surplus was of the order of about 25 per cent. While the estimate of some other witnesses was similar to that of the Class I

Officers' Association, some officials put the surplus between 30 per cent and 35 per cent. Very few officers took the view that the Corporation had only a marginal surplus. They took the view that the present strength might not be above the requirements of the Corporation if all the work prescribed in the Manuals was done promptly and without arrears. Many of the officials emphasised the fact that surplus in the staff strength was related to productivity and work norms.

7.3.7. The Director (Personnel) stated that he could not say that there was surplus as it had been found that the present staff was required for coping with the work. He also stated that when the new cadre strength formula for the various departments was introduced in 1966, there might have been a small surplus; but in the following year the strength of the staff working in an office had been taken into account in sanctioning staff for that office. He further pointed out that it was difficult to transfer staff from one office with a surplus to another in deficit, though wherever possible, such transfers had been made. However, it was a fact that as a result of the study that the O. & M. Department it was found that there was surplus staff as on 31st March, 1965 and that, if the basis that they had suggested for assessing the staff requirements were accepted, it might appear that there was sufficient surplus of staff to enable the L.I.C. to refrain from further recruitment of staff for 2 or 3 years. They also observed that, in any case, it was necessary to review the steps that had been taken, and, if possible, restrict recruitment to a much smaller figure than what had already been sanctioned. However, we have to point out that these expectations have not been realised, and there has been fresh recruitment during the years 1965-66 and 1966-67.

7.3.8. During the course of evidence, one of the Managing Directors told us that the Corporation was conducting sample studies to fix suitable work norms for the various types of work in the Corporation. He said that it was proving difficult even to try out these measures on a sample basis since it was feared that this might lead to charges of favourtism and discrimination. According to him, judged on the basis of the work norms evolved from the studies made thus far, it could be said that there was a "surplus" staff of about 20 per cent to 30 per cent in the Corporation.

7.3.9. That the Chairman of the L.I.C. is fully aware of the existence and the extent of surplus staff in the L.I.C. is clear from the following remarks that he made at the special Zonal Managers' Conference held on 24th July, 1968:

> "The Corporation was overstaffed from 5 per cent to 25 per cent but even then the efficiency was not there. The inspection reports reveal serious irregularities and that no action was taken."

7.3.10. During his evidence before us, the Chairman reiterated his view that there was surplus staff in the Corporation. He, however, added that while sanctioning further staff to the various offices of the Corporation, he had been keeping this factor in mind. He cited the instance of the additional recruitment to Class I Officers being scaled down by about

50 per cent of the normal yearly additions in the earlier years as also the reduced sanctions for Class III staff. He had no doubt that the present state of affairs in the Corporation was due to the absence of work norms. He added that the Class III employees Union, had refused to cooperate in work-studies when they were attempted earlier, but the Corporation had recently studied the problem and come to some tentative conclusions regarding work norms. It was now proposed to enforce these norms. Considering the fact that the total salary bill of the Corporation is of the order of Rs. 23 crores, a surplus staff of even 25 per cent would mean an expenditure of about Rs. 6 crores per year. Expressed as a percentage of the renewal premium income this would work out to about 3.4 per cent. But for this extra expenditure, the renewal expense ratio as well as the renewal cost ratio of the Corporation would have been less by about 3.4 per cent. It is thus clear that one of the major factors that is contributing to the present unsatisfactory state of affairs is the absence of work norms. It is heartening to note that the Corporation itself has become aware of the gravity of this problem and initiated action. We hope that the employees of the Corporation would also extend their whole-hearted cooperation to the remedial measures that have become necessary.

7.4.1. *Cadre Strength, Work Norms and Productivity.*—These observations and considerations led us to an examination of the "Cadre Strength" in the various departments of the Corporation. It is clear that "Cadre Strength" should depend on the volume of work and the "norms" for various types of work that is done in the Department. Norms would also provide us with a means to measure the degree of 'productivity' that obtains or that should obtain in the Corporation in various types of work.

7.4.2. The Director (P) told us that, while "mechanical" work and some types of clerical work were amenable to fixation of norms, there were other types of work that were not so easily amenable. Moreover, 'Norms' could be worked out and implemented only with the cooperation of the staff. Under these circumstances, the extent of surplus has only been a matter of opinion and conjecture. All the witnesses who appeared before the Committee were unanimous that the productivity in the various offices of the Corporation had gone very low. They had no doubt that work measurement was necessary to provide a reliable yard-stick for determining surplus. *We, therefore, recommend that the Corporation should take immediate steps for measuring work and arriving at "norms" for all kinds of work that are amenable to measurement. The Corporation may, if necessary, take the assistance of any expert outside body that may be able to help in this exercise. We further recommend that till the results of this study are available and the extent of "surplus" has been determined and located, no further recruitment should be made.*

7.4.3. We have already referred to the manner in which mobility affects the success of efforts to utilize or absorb surpluses. But it has been pointed out to us that there is considerable resistence from the 'staff' for transfers. Regulation 80 of the Life Insurance Corporation (Staff) Regulations 1960 specifically provides that the competent authority of the Corporation may transfer any employee from one department to another in the same office or from one office of the Corporation to another office.

Yet, we were informed that the Corporation has come to an informal understanding that it would not transfer some categories of staff. If 'Staff members' are required to serve the Corporation anywhere, they have to be transferable to any Office even though a frequent whimsical or capricious use of the right to transfer will be injurious to the Corporation itself. We are, however, surprised that the Corporation "informally" agreed to a dilution of its right to transfer its employees without obtaining prior permission from the Government for this virtual amendment of Regulation 80 or estimating the effect that this informal surrender of power will have on the creation and absorption of the surpluses. We believe that no national undertaking—in the Public Sector or the private sector—can give up the right to transfer its employees to any part of the Country. However, we are equally sure that this right will have to be exercised with due regard to the effect that transfers may have on the real income of the employees and the harm that frequent or whimsical transfers can do to efficiency.

7.4.4. *Incentives.*—One of the recognised methods of improving productivity is to provide incentives for "above average" work and disincentives for "below average" work. The Staff Regulations [Regulation 56(4)] empower the competent authority "to grant advance or special increments or temporary increments to an employee if the circumstances require it". Staff Regulation 39(1) provides for withholding of increments or promotion, reduction to a lower service, or post, or to a lower time scale or to a lower stage in a time scale etc. for, among other reasons, negligence, inefficiency or indolence. It is clear that no such punishment can be meted out to an employee without going through the due processes of enquiry etc. But, if there are fixed norms, the Corporation as well as the employees will have an objective standard against which the performance of a particular employee can be measured before determining whether he has been negligent, inefficient or indolent.

7.4.5. Many of the witnesses who appeared before the Committee including the Executive Director (P) were of the view that "the Carrot and Stick Method" for improving efficiency could not be utilized, could not work in a Public Sector Undertaking; since, the application of the stick may create industrial disputes and the grant of rewards even for excellent work, may expose the officer to a charge of nepotism. The scope for these allegations is much greater when there are no norms. However, once norms are fixed, it should be easier for the Corporation to determine degrees of efficiency or inefficiency, and enforce a system of incentives/disincentives either on the lines of Reg. 39(1) or in any other suitable manner that the Corporation considers appropriate. We have no doubt that it has become essential to create an atmosphere in which the employees of the Corporation fully realise that good work will be rewarded and bad work will be punished. *We, therefore, recommend that the Corporation should devise a suitable system of incentives/disincentives for rewarding or punishing work that is above or below the norms that are fixed. The system should give no room for suspicion of partiality or prejudice, and should be capable of easy application.*

Mechanisation

7.4.6. Another method that might be adopted to increase productivity is to increase mechanization. Mechanization will not only lead to greater

productivity but also to greater accuracy, greater efficiency and, consequently, better servicing. This in turn, will result in greater economy. We understand that though the Machine Manual lays down the procedure for mechanising various jobs, the actual extent of the mechanization that has been achieved varies from Division to Division, and many of the jobs envisaged in the Manual have not been put on the machines in a number of offices. Moreover, some witnesses have informed the Committee that machines that have been purchased and installed are not being put to full and effective use at some places or during certain periods. We were also informed that the L.I.C. has recently disposed of some machines that were considered surplus. *We recommend that measures should be taken to ensure that all the jobs envisaged for machines in the Machine Manual are put on the machines without any further delay. The Corporation should also examine whether the full utilization of machines cannot be ensured by putting further jobs that can be mechanized on the machines that are already available.*

7.5.1. *Recruitment.*—We understand that the Corporation recruits persons directly to the Assistants' cadre in Class III in addition to promoting eligible employees from Class IV. In the same way, Assistant Administrative Officers (in Class I) are appointed both by direct recruitment and promotion from Class III (Superintendents & Higher Grade Assistants). Vacancies in the cadre of Assistant Branch Managers (D) (Class I) are filled by promotion from Development Officers. The number of new entrants to Classes I & III by direct recruitment and by promotion, for the various years 1960—1967-68 are shown below:

TABLE 7·3.

Year	Class III		Class I*	
	By direct Recruitment	By promotion	By direct Recruitment	By promotion
1960	4010	1407	76	353
1961	4142	634	81	308
1962-63	5992	650	124	293
1963-64	2487	450	123	258
1964-65	1595	608	121	112
1965-66	1275	137	81	144
1966-67	1026	258	119	105
1967-68	391	163	113	102

*Includes entry into A.A.O. & A.B.M. (D) cadres as separate figures are not available.

7.5.2. The policies of recruitment, training and promotion that an undertaking pursues have an important bearing on productivity. A high standard of productivity cannot be achieved without ensuring that the

right type of 'personnel' are appointed, either by direct recruitment or promotion. Those who are appointed, should be given both theoretical and practical training. Employees should be convinced that the management is interested in helping them to develop their skill and qualifications and in improving their prospects in the undertaking. They should have the confidence that good work will be rewarded and it is possible for men of merit to go up the ladder, even to the top positions in the Organisation.

7.5.3. Among the new entrants to Class I are technical personnel required in the Accounting, Auditing and Actuarial wings of the Corporation. While the number of these recruits will depend upon the exigencies of circumstances and the growth of work, the promotional prospects for such personnel should also be kept in mind even at the time of recruitment. The Corporation may also consider the possibility of opening more promotional prospects to these technical people by providing them with the necessary training in non-technical fields.

7.5.4. The Corporation has established an Officers' Training College at Nagpur where direct recruits to the cadre of Assistant Administrative Officers are given training before they are posted to various offices. Apart from these recruits, other A.A.O.'s of the Corporation also receive refresher training at the College for short periods. As far as Class III staff are concerned, all candidates for the posts of Assistants are required to undergo training in the Divisional Training Centres before they are finally selected for posting as Assistants. Those who are already working as Assistants are also given refresher courses at such training centres. It appears that a majority of officers and assistants have already undergone training in these courses. However, we feel that a continuous effort should be made to see that the content of the training is suitably revised from time to time, to increase efficiency and productivity. *We, therefore, recommend that the duration, content and techniques of training for the different cadres of officers should be continually reviewed to improve their efficiency and productivity.*

7.6.1. *Promotion.*—We find that in the case of Class III employees, not only their work record and qualifications, but also their performance at an interview before a Promotional Committee is taken into consideration in deciding promotions. However, we understand that in the case of Class I Officers, there is no such provision for interviews to determine promotions. Promotions in their cases are based on seniority, merit and suitability. Merit and suitability are judged by the Promotion Committee on the basis of the confidential reports of the officers. This leaves a lacuna in the procedure inasmuch as confidential reports may be influenced by personal likes and dislikes of the reporting officers. It may not be out of place here to refer to the experience of our own Committee. The Committee had the opportunity of meeting the Divisional Managers of the various Zones. We discussed with them such matters as the administrative set up of their offices, Insurance Agents, Development Officers, Sub-Offices, Branches and the personnel in those offices, peculiarities of the business of each Division, the lapsation of policies, servicing of policies, death and maturity claims, the extent of work each office could take over from the higher tier of offices etc. Though we found quite a few of the Divisional Managers to be persons of high calibre, we would find it very difficult to say that all the Divisional Managers of the Corporation were persons who came upto the expectations.

7.6.2. In the Chapter on reorganisation, we have recommended that Divisional Offices be given enhanced powers. This has added to the necessity to see that Divisional Managers as well as other Officers in the Division are men of high calibre, capable of discharging the added responsibilities. *We, therefore, recommend that Class I Officers who are to be promoted should also be asked to appear at an interview, and the selection should depend not only on their confidential Reports but also on their performance at the interviews.*

7.7. *Transfers.*—We have already referred to the question of transfer in a certain context. In other contexts also the question arises. We have noticed that the Divisional Managers of the following Divisions have been changed as many as 6 to 7 times in the course of the last 12 years:—

(1) Kanpur	(6) Jalpaiguri
(2) Gauhati	(7) Asansol
(3) Rajkot	(8) Machilipatnam
(4) Agra	(9) Coimbatore
(5) Indore	(10) Trivandrum

The number of divisions which have had only 3 Managers is as low as 2. Such frequent transfers may adversely affect the single-mindedness and application with which an officer works to improve the efficiency of the Office and divest the Division of the benefit that insurance business gets from personalized attention and service. *We therefore, recommend that frequent transfers should be avoided. Unless there are exceptional circumstances, an employee should be allowed to remain at a place for at least 4 years. Though we cannot accept the contention that the Corporation should not exercise the right to transfer employees to any place in India provided in Staff Regulations* (1960) *No.* 80, *we feel that the exercise of this right should be tampered with considerations of the economic hardships that the transfer may occasion and other humanitarian considerations that may arise. These considerations should give due regard to the class of the employee, who is being transferred.*

7.8.1. *Scale of Pay and Allowances.*—When the Corporation was established it inherited a number of employees working with the various erstwhile insurers, with different grades of pay and allowances. The first problem that the Corporation faced was to rationalise the variety of pay scales and allowances given by the erstwhile insurers. The scales of pay in the L.I.C. are prescribed in the Staff Regulations, and are required to be approved by the Government under Section 49(2)(b) and (bb) of the L.I.C. Act. The scales of pay and the other terms and conditions of service of the employees of all the erstwhile insurers were standardised by a Government Order in the 1st June, 1957. This Standardisation Order also gave an option to existing employees to continue on their old Company's pay scales. But in view of the generous concessions that were given while fitting in employees into the Corporation's own scales, a vast majority of the transferred employees opted for the Corporation's scales. Very few

exercised the option to continue on their old Company's scales. The cost of these concessions was estimated at about Rs. 6½ lakhs per month inclusive of increases which were actually given effect to in the year 1958.

7.8.2. The pay scales of various categories of staff have been revised from time to time. The changes, the financial implications and the additional cost involved in these changes have been estimated as follows:—

(i) *Class I Officers*:	*Cost of revision*
(1) The scales of pay of the Zonal Managers and Executive Directors were changed four times during the period upto 31st March, 1967 (In 1958, 1-7-1960, 1-4-1964 and 1-8-1966). On 1-7-1960, the scale was split into two, *viz.*, ordinary scale and selection scale. While the minimum of Rs. 1800 was retained for the ordinary scale, the maximum was raised from Rs. 2250 to Rs. 2500. The minimum in the selection scale was raised from Rs. 2250 to Rs. 2500 in 1966. The maximum of the selection scale has been increased from Rs. 2750 to Rs. 3000. (2) The scales of Deputy Zonal Managers were revised twice during the period upto 31-3-1967 in 1958, and in 1964. The minimum of Rs. 1200 was raised to Rs. 1300 with effect from 1-4-1964. The maximum was raised from Rs. 1800 to Rs. 2000.	Not significant.
(3) With effect from 1-9-1959 the scales of Junior Officers (Rs. 250—25—500) and A. B. Ms. (Rs. 250—20—600) were merged and a common scale of Rs. 250—25—600 was introduced. The minimum of this scale was raised to Rs. 350 with effect from 1-7-1960.	Not significant.
(4) The scale of A. S. Os./B.Ms. was revised with effect from 1-9-1959 from Rs. 500—25—850 to Rs. 500—25—550—30—850.	Less than Rs. 1 lakh.
(5) In July 1965 the scales of pay and dearness allowances of Class I Officers were revised and H.R.A. and C.C.A. were granted with retrospective effect from 1st April, 1964.	Pay Rs. 34·5 lakhs D.A. Rs. 11.0 „ P.F. Rs. 3·0 „ H.R.A. Rs. 29·0 „ C.C.A. Rs. 8·5 „ Total Rs. 86·0 lakhs.
(6) In April 1960 an *ad hoc* D.A. of Rs. 15 was allowed for Class I Officers drawing Rs. 500 or less.	Rs. 1·3 lakhs.
(7) Since the 1st of April, 1964 there have been revisions in the rates of D.A. payable to Class I Officers effective from various dates.	From 1-4-66 Rs. 5 lakhs. „ 1-8-66 Rs. 5 lakhs. „ 1-2-67 Rs. 3·5 lakhs. „ 1-7-67 Rs. 3·5 lakhs „ 1-11-67 Rs. 3·5 lakhs.

(8) Bonus was granted to Class I Officers at 6% of pay from 1964.	Rs. 12 lakhs.
(9) Benefits like leave travel concessions, medical benefits, etc. were extended to Class I Officers.	Premium under Medical Benefit Scheme: Rs. 4·5 lakhs (The cost of other benefits is not capable of being estimated.)

(ii) *Class III and Class IV Staff*:

Increases in the remuneration granted to Class III and Class IV employees from 1st September, 1958 to date are shown below :—

Item No.	Description of the item	Total annual cost of (In lakhs of rupees)	Increases expressed in Column (3) as %age of the Renewal Premium Income of the relevant years
1	2	3	4
1.	F[illegible]r g in under the Standardisation Order, 1957	78·0	1·05
2.	Increase of Rs. 5/- p.m. in D.A. to employees drawing a basic pay of above Rs. 50 but less than Rs. 251 p.m. from 1-1-1951 . .	6·00	0·10
3.	Bonus to employees under agreement of 1959 .	50·00	0·75
4.	*ad hoc* increase in D.A. of Rs. 15 p.m. to all employees drawing a basic pay of Rs. 500 or less p.m. with effect from 1-4-1960 . . .	67·00	0·88
5.	Revision of scales of pay etc., with effect from 1-1-1962 under the settlement of 1963:		
	(*a*) Revision of Grades and D.A. . .	117·00	
	(*b*) House Rent Allowance . . .	43·50	
	(*c*) Hill Allowance	1·00	
	(*d*) Functional Allowance . . .	3·00	
	(*e*) Option to employees continued in the erstwhile Insurer's grade . . .	1·50	
		166 00	1·40
6.	Revision of D.A. with effect from 1-3-1964 .	65·00	0·56
7.	Temporary increase in D.A. granted with effect from 1-8-1964 under the Settlement of 1965	55·00	
8.	Medical Scheme introduced with effect from 1-1-1965 under the settlement of 1965 .	20·00	1·09
9.	Revision of D.A. with effect from 1-11-1964 .	58·00	

1	2	3	4
10.	Revision of D.A. with effect from 1-4-1965 .	69·00	0·96
11.	Revision of D.A. with effect from 1-1-1966 .	71·00	
12.	Revision of D.A. with effect from 1-9-1966 .	74·00	0·92
13.	Revision of D.A. with effect from 1-2-1967 .	75·00	
14.	Revision of D.A. with effect from 1-7-1967 .	75·00	Not available

7.8.3. The statement that we have given above gives an idea of the additional expenses that resulted from increases in the emoluments and allowances. They have also been stated as percentages of the renewal premium income in the year in which the revision become effective. However, with the growth in the number of employees since the revision, and the subsequent rise in their basic pay and the resulting Dearness Allowance, etc., the cost of the increase granted from time to time must have been more than those indicated above.

7.8.4. To illustrate the effect of the revisions that have been made in the pay and allowances, the pay and allowances and total emoluments payable to a new entrant (on the minimum of the grade) in the years 1958, 1963 and 1968 are shown in the following table. (For this purpose, the grades of A.A.O., A.D.M., D.M., Class III Superintendent and Assistant and Class IV are chosen) :—

TABLE 7.4

	lary	D.A.	Adi. Allow.	H.R.A.	C.C.A.	Bonus	Total
Class							
1958	900	100	...	...	...	..	1,000·00
1963	900	100	...	...	...	..	1,000·00
1968	1100	130	100	147·50	75	45	1,597·50
.D.M.							
1958	600	85	...	...	...	...	685
1963	600	85	...	...	...	...	685
1968	700	90	100	105	56	42	1,093
A.A.O.							
1958	250	70	...	...	...	...	320
963	350	90	...	...	...	...	440
8	400	185 15	100	60	32	24	816

1	2	3	4	5	6	7	8
Class III							
Supdt.							
1958 . .	200	65	...	...	...	25	290
1963 . .	250	28·75 15·00	...	12·50	...	31·25	342·50 15·00
1968 . .	250	213·75	...	12·50	...	31·25	507·50
Assistants							
1958 .	75	55	...	...	...	9·40	139·40
1963 .	130	25·20	...	10·00	...	16·25	181·45
1968 .	130	111·00	...	10·00	...	16·25	267·25
Class IV							
Sepoys etc. .							
1958 . .	35	50	...	...	...	4·30	89·30
1963 . .	82	21	...	...	...	10·00	121·00
1968 . .	82	93·50	...	...	...	10·00	193·50

7.8.5. We must mention here that the Dearness Allowance of Class III & IV staff is linked with the cost of living index, to the extent of 75 per cent neutralisation for Class III, and 100 per cent neutralisation for Class IV. As a result of this, whenever there is a rise in the cost of living index by 10 points—a circumstance which is beyond the control of the L.I.C.—an increase in Dearness Allowance for Classes III and IV has to be allowed. This at present, costs the Corporation about Rs. 75 lakhs per annum. We have been reminded that such an increase has in fact no relationship to increase in productivity or average sum assured or premium per policy, and so becomes a heavy burden upsetting all plans and calculations. The principle of linking the D.A. with the cost of living seems to have been accepted by the Government, and it is not therefore possible for the L.I.C. to escape its effect. However, one cannot forget that any such neutralisation for one class is bound to have its impact on the other classes as well.

House Rent Allowance:

7.8.6. While examining the pay scales of the Officers we found that the house rent allowance payable to Officers have very recently been changed to :

15 per cent of pay upto Rs. 750 Basic Pay plus

10 per cent of Basic Pay in excess of Rs. 750.

It will be observed that this new formula which was introduced in 1968 does not have any reference to the actual rent paid by the Officer concerned, through the earlier rules which were in force till 1968 did take into consideration the actual rent that was being paid. In our view, the grant of a house rent allowance that is unrelated to the actual rent paid

by the Officers is not justified. According to the new scale, an Officer drawing Rs. 750 p.m. may be paying no rent or may be paying only a nominal rent of say Rs. 50; yet he will be eligible for a house rent allowance of Rs. 112.50. We do not consider this reasonable. *We therefore, recommend that the Corporation should take the earliest opportunity to revise the criteria for house rent allowance, with a view to ensuring that the amount of allowance paid is in no case higher than actual rent paid.*

Parity of Scales of L.I.C., State Bank of India and Reserve Bank of India:

7.8.7. The question has often been asked whether the pay scales of corresponding ranks of employees in the L.I.C., State Bank of India and Reserve Bank of India should, more or less, be the same. Though these three are financial institutions under the Government, there are some essential differences that cannot be ignored. The L.I.C. cannot change the premium rates for existing contracts. Theoretically, it can increase the premium rates for new contracts, but this might make insurance less attractive, and this in turn may affect the volume of business. But the case of a banking institution is different. The rates of interest on which it lends money can and do vary according to prevailing economic conditions. These variations provide a certain elasticity for banking institutions, and they are able to absorb the increases in expenditure that result from the demands made by their employees from time to time. Moreover, the L.I.C. cannot forget that it is the custodian of the savings of millions of poilcyholders. Inflation has already eroded the real value of the money saved by these policyholders. It will be hard if such savings have to bear the additional burden of a very high salary bill. The ability to pay and the capacity of the institution to meet the demand of the staff are major criteria that have to be borne in mind in determining pay scales and allowances. There is, of course, no doubt that if pay scales do not keep in tune with the scales offered for corresponding positions in similar institutions, the right type of people may not find it attractive to join the institution. Even so, we feel that the ability to pay should be given its due weight. *We do not, therefore, see any reason to recommend that there should be rigid parity among pay scales of corresponding ranks in L.I.C., State Bank of India, and Reserve Bank of India, or any other public undertaking, irrespective of considerations of the capacity of the organisation to pay.*

I.H.Os. & I.B. Os.:

7.9.1. While discussing the staff strength, it is necessary to refer to the position in I.H.Os. & I.B.Os. Though the policies of many of the erstwhile insurers, have been decentralized to the Divisions, the policies of some of the bigger units have not been decentralised, and continue to be serviced from I.H.O. & I.B.O. Offices. The number of policies to be serviced by these offices is decreasing year by year due to maturity, surrender and conversion to paid up etc. It is, therefore, necssary and prudent that the staff of these units is reviewed at periodical intervals during the year, and the surplus staff transferred to Divisional and other Offices where the number of policies to be serviced increases every year by the addition of new policies. It appears that the Corporation has found it difficult to adopt this course. One of the Managing Directors of the

Corporation told us that he had made a special study of the staff position in the I.H.O. Units in the Eastern Zone and found that the following reasons were responsible for the difficulty :—

(i) The employees in these Units were old, and their average salary corresponding to length of service was high.

(ii) Among the people working in these Units, the more efficient were promoted and sent outside, leaving behind only the less efficient—efficiency suffered as a consequence.

(iii) Sometimes when Units are grouped together, employees are not conversant with the records of the newly merged Units. Consequently, they themselves have to look into relevant papers—this takes a longer time for disposal of cases.

(iv) Dispersal of staff is being objected by the employees who do not like being shifted from one place to another, even in the same City.

.2. While we appreciate the difficulties that have been outlined, do hope that the Corporation would soon find ways and means to over- ne these difficulties, by decentralising the policies of these I.H.O. and .O. Units also as early as possible.

7.9.3. In the case of these I.H.O. and I.B.O. units, the L.I.C. has not prescribed any standards for class III staff. They have explained that the question of prescribing standards did not arise as these units were operating with the staff inherited by them from the erstwihle insurers, under the direct control of the Zonal Offices or the Divisional Offices. It is claimed that while according sanction for additional hands to the Zones a review of the staff position in these units is made every year. Further recruitment is made only after allowing for the surpluses available from the I.H.O. & I.B.O. Units. But, from the figures that have been made available to us, appears that the staff strength of the I.H.Os. and I.B.Os has not been reduced in some cases at a rate commensurate with the fall in the number of policies in force and the Premium Income of the Units. Of course, it must be remembered that the work of I.L.Os. and I.B.Os. does not decrease in proportion to the number of policies, since irrespective of the number of policies, the work relating to the number of statements to be prepared, books to be written and returns to be sent to the higher offices continues. The Corporation told us that the expense ratio of a large size I.H.O. Unit is likely to increase progressively because of (1) the time lags in reduction in the number of staff compared to the reduction in the renewal premium income from year to year; (2) the need to service paid up policies which do not bring in any renewal premium income; (3) the fact that a normal grade increment and upward revision in the salary scales and allowances for the staff adds to the cost, though there is no corresponding increase in the premium income and (4) the increase in the cost of goods and services not being counterbalanced by an increase in the premium income. The following table shows considerable disparities between the various I.H.O. Units in the number of staff per thousand policies and in increases in this number from 31st March, 1966 to 31st March, 1967.

TABLE 7·5

Statement showing number of Class III staff per thousand policies and percentage of staff salaries to premium income in respect of I. H. O. Units.

Name of the Unit	Number per thousand policies				Percentage of Staff salaries to Premium Income	
	Class III		Total staff			
	31-3-66	31-3-67	31-3-66	31-3-67	1965-66	1966-6
1. Oriental (Gr. 1)	1·8	1·8	2·1	2·1	14%	15
2. New India Bombay Life (Gr. II and III) .	1	1·4	1·3	1·3	6%	5%
3. I.H.O. Group IV, VII, IX and X	1·5	1·2	1·9	1·5	12%	14%
4. Hindustan Co-operative .	1·1	1·3	1·6	1·7	14%	23%
5. Metropolitan Group	2·2	2·4	3·2	3·3	24%	26%
6. National Insurance Group .	2	2	2·6	2·6	17%	17%
7. Bharat Base .	2·2	2·3	2·8	2·9	19%	23%
8. Laxmi Base .	1·8	1·6	2·2	1·9	20%	23%
9. National Indian	2·1	2·4	2·8	3·1	20%	26%
10. Eastern Railway Men's Co-op. .	1·5	1·5	1·7	1·8	15%	15%
11. Rly. Employees Co-op. .	2·4	2·4	2·8	2·7	26%	27%
12. Ruby General*.	8	N.A.	10·4	N.A.	81%	15%
13. Hindu Family .	1·8	2·0	2·2	2·3	14%	16%
14. Overseas Unit, Calcutta .	2·6	2·4	3·3	3·2	12%	12%
15. Rly. Employees Provident, Midnapore .	1·6	1·5	1·9	1·8	15%	17%

*The wide fluctuations in premium income caused corresponding fluctuations in these percentages.

7.9.4. The RER of the I.H.O. Units for the years 1963-64 to 1967-68 given in the Appendix 6A shows a disturbing picture. It is observed that the average RER of all the Units has shown a progerssively increasing trend from 15.15 in 1963-64 to 22.43 in 1967-68. It can also be observed that it is much higher in the cases of individual units, e.g. about 91 per cent in the case of 'Ruby' and 'Bangalakshmi' in 1965-66, 83 per cent in the case of 'Arya Insurance Calcutta' in 1966-67; 51 per cent in the case of 'Bombay Mutual, Calcutta' in 1967-68 and so on. It is difficult to believe

that all this increase can be accounted for by the contentions of the Corporation that we have already referred to earlier. It is therefore obvious that these units are a drag and drain on the resources of the Corporation. *We, therefore, recommend that the Corporation should take immediate steps to evolve a suitable formula to fix the cadre strength for the I.H.O. and I.B.O. Units and reduce the staff of these units in accordance with this formula.*

Discipline :

7.10.1. An atmosphere conducive to work can exist only when there is discipline in the various offices. From the evidence before the Committee, it appears that discipline has been continuously deteriorating in the L.I.C. In some cases, deteriorating discipline seems to have led to situations involving law and order.

7.10.2. The attention of the Committee was drawn to certain incidents of violence and intimidation. We are not called upon to sit in judgment on these incidents or to fix responsibility for the situations that devloped. We understand that some of these incidents are now being enquired by Courts or Inquiry Committee. They will pronounce judgments on these instances. We do not want to say anything that might prejudice these enquiries or proceedings. But we are also anxious that the Government, the Parliament and the public should be fully aware of the gravity of the situation and the sorry state of affairs in Staff-relations in this Public Undertaking. We shall therefore, cite a few instanres that we same across making it rlear onle more that we do not want to say or imply anything about the guilt or blame of the parties.

7.10.3. The versions of the various incidents that we give below are what we learned from the Corporation.

(i) City X

On 5th August 1968 the Chairman of the Corporation was prevented from entering the Zonal Office at City X to attend a meeting of the Zonal Advisory Board. The Vice-President of the Board also could not enter the Zonal Office building. Apprehending disturbance, Police were present around the Zonal Office building. In order to avoid further trouble, the Chairman decided not to enter the Zonal Office, even under police protection, and gave up the idea of attending the meeting. The Senior Officers of the Zonal Office who were waiting to receive the Chairman near the gate within the office premises, were physically prevented by the employees from going near the gate to receive the Chairman. When the Zonal Secretary attempted to proceed to the gate, an office bearer of the recognised Union, it is alleged, rushed to him, held him by the collar and gave him a blow. It is further alleged that he also abused the Zonal Secretary in filthy language, and not content with this, lifted up a chair lying nearby to hurl it down on the Zonal Secretary. It was also reported that but for the timely intervention of someone from among the employees, grave physical injuries might have been inflicted on the Zonal Secretary. The Officiating Zonal Manager is also alleged to have been

threatened and warned that the verbal threats given to him in the past would be carried out. The other officers too were allegedly abused. When the office bearer referred to earlier was suspended and charge-sheeted, the Union demanded that in future the Management should refrain from calling in the police, since summoning of the police may spark off grave troubles and the management would be held responsible for any untoward incidents that followed. The office bearers of the Union also pleaded with the Zonal Manager that no action should be taken against the office-bearer involved in the incident. The City Divisional Life Insurance Employees Association organised a day's strike and continued its agitation in the form of work to rule in all the offices of the Zone. The All India organisation also joined in this action, and directed all its units to intensify the agitation throughout the country.

(ii) City Y

While the full facts of the incident, which took place at the Railway Station in City Y on 30th July, 1968 are still awaited, it was alleged that demonstrations were held against one Divisional Manager at an important Railway Station in the City when the Divisional Manager was proceeding to board the train after attending a Divisional Managers' Conference held in the City. It was also alleged that some demonstrators turned violent and caused physical injury to the Divisional Manager. It was reported that the Railway Police took action against an office-bearer and three other members of the recognized Union. Therefore the Corporation, under clause 36 of Staff Regulations, suspended these employees against whom the Police had taken action. Soon after this suspension, the Union organised demonstrations before the offices of the Corporation and gave a call for one hour's demonstration during working hours on the ground that the action of the management amounted to victimisation of the office-bearer of the Union for the Union's activities.

(iii) Other Places:

Certain incidents of violence and intimidation from other Zones and areas were also brought to the notice of the Committee. But we do not want to lengthen this chapter by recording all of them. Nor is it perhaps necessary to do so, since the two incidents that we have cited illustrate the condition to which matters have deteriorated in some areas.

7.10.4. The employees of the erstwhile insurers hailed the event of nationalisation of life insurance in 1956 as an important step in the country's march towards democratic socialism. It was therefore expected that they would whole-heartedly co-operate in the working of the Corporation. But in actual practice, it would appear that this expectation has not been realized. It is obvious that lack of discipline is a major factor contributing to lower output of work, deterioration in the services rendered to policyholders and, consequently, increase in expenses. Ways and means have, therefore, to be found to arrest this tendency on the part of the employees. Addressing the Zonal Managers' Conference on 24th July, 1968, the Chairman of L.I.C. stated that "discipline on the whole is not what it should be, and has to be tightened up. For this purpose, drastic disciplinary action along with rewarding good work has to be taken".

7.10.5. We may now consider the number of cases where disciplinary action has been taken against employees of various categories during the last three years :—

Class I : Officers.

	1965-66	1966-67	1967-68
Foreign Deptt.	...	...	...
Western Zone	1	2	4
Eastern Zone	1	3	5
Southern Zone	6	3	...
Central Zone	...	1	3
Northern Zone	1	3	2
	9	12	14

Class III : Supervisory and Clerical Staff.

	1965-66	1966-67	1967-68
Foreign Deptt.	1	2	4
Western Zone	18	21	37
Eastern Zone	32	27	28
Southern Zone	14	8	13
Central Zone	2	29	28
Northern Zone	32	23	33
	99	110	143

Class IV : Subordinate Staff.

	1965-66	1966-67	1967-68
Foreign Deptt.	2	2	...
Western Zone	19	27	19
Eastern Zone	12	10	11
Southern Zone	6	7	11
Central Zone	2	1	7
Northern Zone	9	7	17
	50	54	65

7.10.6. It may well be that all these cases in which action was taken are not cases involving indiscipline of the type referred to in the preceding paragraphs. Some of them might relate to default of other types. Similarly, it has not been possible to obtain statistics about the total number of incidents involving indiscipline arising from unsatisfactory staff relations. In any case, it appears to us that the disciplinary authorities are generally hesitant and sometimes even afraid to take action even when the cases involve flagrant violations of discipline. We were told that one of the reasons for this fear was the feeling that high authorities might not give the necessary backing and another was the threat of agitation or interference from politicians. They were, therefore, anxious to avoid further trouble or further deterioration in the situation. We feel that this is a sorry state of affairs and the highest authority of the Corporation and Government as well as the leaders of political groups should do their best to encourage discipline and support the enforcement of discipline.

7.10.7. The Executive Director (P) in his evidence said that every act of indiscipline tends to become an industrial dispute. We realise that this can happen and has happened in a number of instances.

7.10.8. The following table gives cases of disciplinary action which led to labour unrest and/or Industrial Disputes during the years 1966-67 and 1967-68:

Disciplinary action cases which led to labour unrest and/or Industrial Disputes during the year 1966-67 *and* 1967-68.

No.	*Zone*	*Nature of action*	*Union's reaction*
1.	Central	Suspension of Shri T. S. Mann, General Secretary of the Jabalpur Division Insurance Employees Union.	(*i*) One day's token strike in Central Zone on 10-3-1967. (*ii*) 50 minutes' late arrival in all the Offices, and (*iii*) Work to rule in all the offices.
2.	Northern	Suspension of Shri R. P. Manchanda, General Secretary, Northern Zone Insurance Employees' Association, Chandigarh.	Work to rule in all the offices.
3.	Northern	Suspension of Union workers on their being arrested in connection with the incidents on 5th April, 1968—Strike Day.	One day's token strike on 10th April, 1968, Chandigarh Division.
4.	Eastern	Suspension of Shri Deb Brata Maji, General Secretary of Calcutta Division Life Insurance Employees' Association.	One day's token strike on 16th August, 1968 in the Offices in Calcutta.
5.	Western	Suspension of Shri A. S. Deo, General Secretary, Insurance Corporation Employees' Union and three others.	One hour's strike between 11·30 a.m. and 12·30 p.m. on 17th August, 1968.

7.10.9. We may here refer to Life Insurance Corporation of India (Staff) Regulations, 1960 framed in exercise of the powers conferred by Section 49(2) of the Life Insurance Corporation Act, 1956. The conduct of the employees of the Corporation is subject to these rules, and any violation of these rules is departmentally punishable in the manner prescribed in the Regulations themselves.

7.10.10. The Staff Regulations define what is expected from an employee of the Corporation. He shall serve the Corporation honestly and faithfully, shall use his utmost endeavours to promote the interest of the Corporation, shall at all times maintain absolute integrity and devotion to duty, and shall conform to and abide by all other provisions of the Staff Regulations. Regulations 36 to 38 deal with the suspension of an employee from service, where disciplinary or criminal proceedings against him are contemplated or pending, the emoluments he is entitled to during the period of suspension, and the manner in which this period should be dealt with when proceedings against him are finally decided. Regulation 39 is the main Regulation under which disciplinary action can be taken. It prescribes the following penalties for violation of the rules of conduct prescribed in the Staff Regulations, or for displaying negligence, inefficiency or indolence, etc. :

(a) Censure :

(b) Withholding of increments or promotion :

(c) Recovery from pay or such other amount as may be due to him of the whole or part of any pecuniary loss caused to the Corporation by negligence or breach of orders;

(d) Reduction to lower service, or post, or to a lower time-scale or to a lower stage in a time-scale;

(e) Compulsory retirement;

(f) Removal from service, which shall not be a disqualification for future employment;

(g) Dismissal.

7.10.11. It may be noted that Regulation 39(2) provides *inter alia,* the following safeguards for an "accused" employee :

(i) None of the penalties specified in (b) to (g) above shall be imposed without the charge being communicated to him in writing.

(ii) He shall be given a reasonable opportunity for defending himself against such charges; and

(iii) He shall be given a reasonable opportunity for showing cause against the action proposed to be taken against him.

7.10.12. These requirements may, however, be waived :

(i) If an employee has been convicted by a Court of Law on criminal charge, and action is taken against him by the disciplinary authority on that ground; or

(ii) Where the disciplinary authority is satisfied that it is not reasonably practicable to comply with the requirements stated in the earlier paragraph. In such cases, the disciplinary authority shall record the reasons, in writing, for not complying with the requirements.

7.10.13. Punishment, other than censure, whatever its nature, cannot be imposed on any employee of the Corporation unless the above conditions are complied with.

7.10.14. An employee has a right to appeal against an order passed under Regulation 36 or 39 to the appropriate Appellate Authority. If his appeal fails, he can also address a Memorial to the Chairman.

7.10.15. From what we have stated above it appears to us that wide powers are available for taking disciplinary action against employees. Yet it has been represented to us that Regulation 39, under which disciplinary action can be taken is imprecise and inadequate. This makes it very difficult for the disciplinary authority to frame charges and to take effective action in time. *We, therefore, recommend that the full powers provided in Regulation* CT *should be invoked to deal with indiscipline and, if necessary Regulation* CT *should be suitably amended to remove ambiguity in identifying indiscipline and inefficiency and to enable the authorities to take prompt and effective action when the seriousness of the indiscipline or inefficiency warrants or demands it.*

Employer-Employee Relations:

7.11.1. The employees of an institution have a very important part to play in the growth and prosperity of the institution. Even as the quality and efficiency of the machines determine the quality of the product in a factory, the quality of the personnel and the methods of work determine the quality of services that the L.I.C. offers to policy-holders. It is, therefore, essential that good employer-employee relations should exist in the LIC.

7.11.2. The recent cases of indiscipline brought to our notice appear to us as an outcome of lack of communication between the employees and the management. It is, therefore, of great importance that this lack of communication should be effectively countered. Communication does not merely consist in making available more and better factual information. It must help to instil in the employees a sense of belonging to the institution, a sense of pride in the Organisation and a sense of responsibility for the efficiency and reputation of the Organisation. These feelings can only be created when employees feel that their interests are safe with the management.

7.11.3. No one can hold that disciplinary action is the real remedy for fostering good staff relations. In fact, though discipline should be enforced, disciplinary action often tends to strain the relationship between the management and employees. The relations between labour and management can be improved when every attempt to enforce discipline is supported by an effort to discover and remove the causes of the dispute or indiscipline.

7.11.4. We feel that there are two main causes for the prevailing malady. Firstly, we are constrained to observe that the leadership in the

L.I.C. has been proved wanting. A leader should inspire confidence in his colleagues and followers and win their loyalty and affection. Loyalty cannot be demanded as a matter of right or secured by status. It has to be won by identifying oneself with the objective of the institution by hard and sustained work. Officers should establish rapport with the employees and secure their co-operation by working with them and winning their confidence. We regret to say that the Officers of the Corporation have failed to give such a lead to the employees of the Corporation.

7.11.5. The other reason is the mixing of political consideration with Trade Union activities. It is the duty of the Government to take steps to see that staff relations especially in Public Sector Undertakings, are tackled on a pure Trade Union basis. They should not be allowed to be subjected to political considerations or party rivalries. The Corporation, on its part, shohld take steps to see that their Officers are able to inspire employees with the confidence that their genuine grievances will be attended to.

7.11.6. It is with this end in view that a machinery for joint consultations between the employer and employees is often advocated. Joint Consultative Machineries have achieved considerable success in many Countries. In our Country too the Government have accepted the idea of joint consultations. It is generally considered advisable to exclude issues such as scales of pay, allowances and retirement benefits to the staff from the purview of the joint consultative committees. These committees may provide a forum for the free exchange of views particularly in matters of common immediate concern. It may not even be necessary to aim at arriving at an agreement on every issue. The subjects that can come up for consideration in such Consultative Committees may include items like (i) Implementation of agreed, settled or awarded terms of service and of other agreements, (ii) Promotion of thrift and savings, (iii) Staff housing, health services and other welfare activities, (iv) Employees suggestion schemes, (v) Suggestions in regard to improvement in work procedure, (vi) Formulation of policies and standards relating to working conditions and necessities (including security measures), and amenities in offices, (vii) Grievance Procedure, etc. We learn that the State Bank of India has evolved a scheme for joint consultations which works more or less on the lines that we have indicated in this paragraph. *We understand that the Corporation has set up a machinery for dealing with the grievances of employees. The necessary for a cordial and meaningful dialogue between the employer and employees cannot be over-emphasised. We would therefore, recommend that the Corporation should set up a Joint Consultative Machinery.*

7.11.7. The details of the composition, functions, etc. of the Joint Consultative Machinery can be determined by negotiations.

7.11.8. We understand that the Agents and Employees Relations Committees that exist in each Zone meet very infrequently. These Committees have been constituted in terms of Section 22(3) of the L.I.C. A. It is the duty of these Committees to advise the Zonal Manager on matters which relate to the welfare of the employees and Agents of the Corporation, or which are likely to promote and secure amity and good relations between them and the Corporation. The functions that these Committees are expected to perform are, therefore, different from what the Joint Councils

will do. *We, therefore, recommend that Joint Consultative Committees should be established at the Divisional level and later at the Branch level.*

7.11.9. If the Joint Consultative Machinery is to be successful, it is important that management do not view it as a mere gesture or a grudging concession to the employees. Management should utilize the meetings of the Joint Consultative Committees to inform the employees of their plans and difficulties and to explain the reasons for the changes that are being initiated in methods and procedures. If the proceedings of such Meetings are given fair publicity, the chances of mis-interpretation will be minimised, employees will be kept informed of developments and both employee's representatives and the employers will feel more interested in and responsible for what transpires at the meeting and what emerges from the discussions.

7.11.10. The Committee feels that the L.I.C. should make every effort to be a model employer. To say this is not to suggest that the management should accept any and every proposal or demand that any organisation of employees may put forth. The model employer approach should not be caricatured and interpreted to mean that supervising officers are expected to condone or be lenient to lethargy and indiscipline among employees. Such an attitude is as harmful to the interests of the Institution as to the employees themselves. With a successful Joint Consultative Machinery in operation and when the employees have confidence that every genuine grievance of theirs will be heard and remedied, any disciplinary action that the Corporation may have to take will get the backing of a large number of employees and will lead to general improvement in staff relations. We are convinced that when the relations between the employers and employees improve, it will result in greater productivity and efficiency. This will eventually lead to a reduction in the expense ratio as well. We have no doubt that our other suggestions for economy will bear fruit only if an appreciable improvement in discipline and employer-employees relations create the atmosphere conducive for economy and efficiency.

CHAPTER VIII

Development Officers

8.1.1. The Development Officers of the Corporation are intermediaries between the Insurance Agent and the Branch Manager. The amount spent on them from the year 1958 onwards and their percentages to first year premium income and to total expenses of management are shown below:

TABLE 8·1

Year	Amount (in lakhs of Rupees)	Percentage to First Year* Premium Income	Percentage to total management expenses
1958 . .	225·09	16·48	10·54
1959 . .	243·58	13·78	10·00
1960 . .	286·38	14·27	10·32
1961 . .	326·23	14·14	10·33
1962-63** .	471·62	15·37	10·65
1963-64 .	452·00	15·66	11·22
1964-65 .	516·57	17·57	11·56
1965-66 .	583·00	18·59	11·77
1966-67 .	652·08	20·36	11·94
1967-68 .	679·38	19·90	11·59

*Excludes single premiums and consideration for annuities.

**15 months period.

8.1.2. It is clear from the table that the expenses relating to Development Officers have been quite heavy, forming 10 to 12 per cent of the total expenses of management.

8.1.3. The amounts of expenses incurred on the Development Officers as shown in the above table, do not include the cost of medical and other benefits, like interest on the loans for purchase of car, etc., as these are not separately available. It has also been assumed in the above table that all the first year premium is secured through Development Officers; while, in point of fact, Direct and Staff agents secured 7 per cent of the new business in 1967-68 without the assistance of Development Officers. Allowing for these factors, the emoluments of Development Officers come to about 25 per cent of the first year premium secured

by them. The new business being procured through the agents working under Development Officers, has been about 93 per cent of the total new business in India of the Corporation. It, therefore, appears that Development Officers today occupy a pivotal position in the development of the life insurance business of the L.I.C. All these reasons have prompted us to deal with this cadre separately, and in detail.

Historical Background: Prior to Nationalisation:

8.2.1. In India, prior to September 1956, most of the insurance companies had an intermediary between the Agent and the Branch Manager (some companies had more than one intermediary). They were known by different names—Inspectors, Organisers, Superintendents of Agencies, Supervisory Development Officers etc.,—in different companies. Inspectors, by whatever designations they were called, were mainly responsible for business. Though different companies had different methods, it can be said that the appointment and remuneration of these intermediaries were governed by their performance as judged by the new business produced and the first year premium income collected. Their promotions or demotions depended upon the volume of business. They were also required to organise an agency force, supervise them and to attend to conservation of business.

8.2.2. It may be interesting to recall the terms and conditions of appointment of the Inspectors/Organisers in some of the leading companies of prenationalisation days.

8.2.3. The Oriental and New India Assurance Companies used to stipulate in the Appointment Letters to their Inspectors/Organisers that the appointment was terminable by one month's or one week's notice on either side. The New India prescribed a minimum scheduled premium income and a minimum paid for life business, for its Organisers, and mentioned the figures in the letter of Appointment. The Gresham Life specifically stated in their Appointment Letter that the emoluments were liable to amendment according to the results achieved in each calendar year.

8.2.4. In addition to these Officers on the development side, some insurers also had Special Agents and Chief Agents who were remunerated on a commission basis. Of these two categories, Special Agents occupied a position analogous to that of the Development Officers of to-day, but were allowed, under the Insurance Act, a maximum commission of 15 per cent of the first year premium income. They were required to employ at least two insurance agents and procure or cause to be procured new business amounting to not less than Rs. 50,000, on which at least the first year's premium had been paid in full. In the event of the Special Agent failing in any calendar year to comply with the requirements he forefeited fifty percent of the total remuneration payable to him, and if he failed to comply with the requirements for two successive calendar years, his contract was to stand terminated.

Position on Nationalisation:

8.3.1. It will thus be seen that the terms and conditions and the scales of salary and allowances of the salaried field staff of the various companies were not uniform. On 1st September, 1956 the services of

about 5,300 salaried field staff were transferred to the Corporation. For the purpose of securing uniformity in the scales of remuneration and other terms and conditions of service of persons employed on the development side of insurers whose controlled business vested in the Corporation, the Central Government issued an order (dated 30th December 1957) under Section 11(2) of the L.I.C. Act, 1956. This order called the L.I.C. Development Officers (Alteration of remuneration and other terms and conditions of service) Order, 1957 (commonly known as the Blue Order), defined the duties of Development Officers and enumerated the terms and conditions of their service. (Field Officers was the name originally given to this category of officers. Subsequently the name was changed to Development Officers). A copy of the Blue Order is at Appendix 7.

8.3.2. On the basis of their performance over a period from 1st November, 1956 to 30th Nevember, 1957 (or 1st January, 1957 to 31st December, 1957), persons employed in the development work of erstwhile insurers were fitted into the uniform grades mentioned in the Blue Order. As a result of this scheme, 3,644 out of a total number of 5,123 Development Officers received increments in remuneration. Many of them received several increments, 221 suffered a diminution in remuneration, 257 were transferred to the administrative side, and the services of only 136 were terminated. "The remaining" (865) "whose performance during the categorisation period was not satisfactory but who, it was felt, may come up to the standard expected of them, if a further opportunity was given to them" were "continued on a provisional basis".

Appointment Letter:

8.4.1. Subsequently a number of new Development Officers were appointed by the Corporation. The practice in the Corporation has been to appoint Development Officers on probation subject to certain conditions which were elaborated in an appointment letter. A copy of the relevant Appointment Letter is at Appendix 8.

8.4.2. The appointment letter specifies the salary offered and the area allotted to him. It requires a Development Officer to maintain a Plan Book or Work Book and make daily entries in the prescribed form which should give a complete record of the results of the daily business calls that he made. It further states that the confirmation of the Development Officer would depend on his performance during the probationary period, especially on his securing a minimum completed business......* yielding a first year scheduled premium income of not less than......*. The letter also stipulates that the appointment would be governed by the Staff Regulations of the Corporation.

8.4.3. When the probationer successfully completes his period of probation, he is confirmed in his appointment as Development Officer by means of another letter. But this letter is shorter than the letter appointing the probationer and only says that the conditions mentioned in the probationary letter of appointment relating to whole time employment, writing up of plan books, maintenance of daily record of work, etc., will continue to hold good. The reference to Staff Regulations is retained. However, the letter does not contain any stipulation regarding the minimum business. A copy of the letter of confirmation is at Appendix 9.

*The actual figures depend upon the salary offered.

8.4.4. When we enquired from the Corporation what the minimum expectation of business prescribed for Development Officers was, and what action was taken for non-compliance with those requirements, the Corporation told us that:

> "No minimum business target or a minimum target in terms of any other Unit or premimum income, expense ratio, number of policies or number of agents is prescribed for a Development Officer. The Development Officer is, however, expected to work at a cost not exceeding 16-2/3 per cent. There being no definite target set for a Development Officer, the question of taking action against him or non-compliance with the minimum requirements does not arise. However, action may be taken against him under Staff Regulation 39 for poor performance, inefficiency, negligence in duties, etc."

Recruitment of Development Officers:

8.5.1. The minimum educational qualification for a Development Officer prescribed by the Corporation is a University Degree in places with a population of 1,00,000 and over, Intermediate in the cases of towns with a population of less than 1,00,000 and Matriculation in other places. Development Officers are recruited from among successful agents, and also from the open market. We found that promotion from agents accounted for about 70 per cent of the additions to this cadre between 1958 and 1962-63, and about 80 per cent thereafter.

8.5.2. We should point out that agents are remunerated only by way of commission. It might, therefore, have been held that Development Officers who are mainly promoted or recruited from among agents could also be remunerated wholly or partly by commission and, partly by salary.

Growth of Development Officers:

8.6.1. The number of Development Officers as at the end of each accounting period, the additions to and exists from the cadre during each period, are shown in the following table:—

(The additions and exits as percentages of the number at the end of the previous accounting period are shown in columns 4 and 6 of the Table).

TABLE 8·2

Date	Number of Deelopment Officers	Additions	Percentage of Col. (3) to Col. (2)	Exits	Percentage of Col. (5) to Col. (2)
(1)	(2)	(3)	(4)	(5)	(6)
31-12-1957 . . .	5,222	273	5·2	665	12·7
31-12-1958 . . .	4,830	532	11·0	174	3·6
31-12-1959 . . .	5,188	998	19·2	378	7·3
31-12-1960 . . .	5,808	1,933	33·3	613	10·6
31-12-1961 . . .	7,128	2,098	29·4	1,018	14·3
31-3-1963 . . .	8,208	1,024	12·5	647	7·9
31-3-1964 . . .	8,585	552	6·4	417	4·9
31-3-1965 . . .	8,720	214	2·5	321	3·7
31-3-1966 . . .	8,613	210	2·4	310	3·6
31-3-1967 . . .	8,513	107	1·2	254	3·0
31-3-1968 . . .	8,366				

8.6.2. It will be seen from this table that the strength of the Development Officers considerably increased from 1st January, 1959 to 31st March, 1963. This period coincides with the period of the Five Year Plan framed by the Corporation. The Corporation probably resorted to a large scale recruitment of Development Officers to achieve the high business targets that were set during this period and to ensure that the newly opened offices were provided with an adequate number of Development Officers; and as often happens when a large numbers are recruited, the standard of selection could not be maintained at a uniform high level. The recruitment rate slowed down afterwards, and during the last three financial years, the number of additions became even smaller than the number of exits.

Security of Service:

8.7.1. We would now like to refer to the question of security of service that the Development Officer acquired in the Corporation and cite a speech that a Chairman of the Corporation made in one of the early years after nationalisation.

> "In any plans for expansion, our development officers and more especially field officers, will play a crucial part. Therefore, the Corporation has recently decided to provide an attractive career for our field officers and to organise their work so as to be of best advantage in the expansion of our new business.
>
> In the days of private insurers, many private companies used to engage the services of a class of field workers known as Inspectors on a hire and fire method. These workers had no fixed terms of service, and their remuneration was frequently altered, sometimes retrospectively on the basis of premium income on the business canvassed through their organisations. Each Inspector was given a quota as a target for business, and if he failed to fulfil the quota, the private insurance companies did not hesitate to terminate his services even without a warning.
>
> From its experience over the last fourteen months, the Corporation finds that, with proper re-organisation, the services of these field workers can be utilised to the best advantage for the expansion of our new business. Accordingly, the Corporation is now providing secure conditions of service for its field workers. An incremental scale of pay has been prescribed and all field workers would be brought on to this scale on a formula which takes into account their past remuneration as well as their performance during their service with the Corporation. The Corporation wishes to avail itself of the knowledge and past exeperience of all its field workers, and, therefore, the cases of all those who cannot be fitted into the new scale on the basis of the formula will be specially considered by a committee of officials. In this way, it is hoped to absorb most of the Inspectors in the service of the Corporation. Attention has also been given to re-deployment of these field personnel.

Outside big cities, the Corporation proposes to give them exclusive areas for intensive development of life insurance business. Each field officer may have an area as large as a taluk or a group of taluks for this purpose and he will be required to organise canvassing of the life insurance business through local agents, both existing as well as new, and thus help in spreading the message of insurance all over the country". (Yogakhema, November 1967).

8.7.2. There is no doubt that there are many advantages in security of service but too much of security without relation to performance sometimes leads to loss of initiative and enthusiasm to work. In this case, it is the Development Officers who have the duty to bring the business that sustains the L.I.C. Sufficient safeguards should, therefore, have been devised to ensure that security of service did not lead to lethargy and loss of interest in performance.

Difference between the Blue Order and the Appointment Letter:

8.8.1. We must point out that the "Blue Order" and the L.I.C.'s Appointment Letter differ in the following respects:

(a) The Blue Order says that one of the duties of the Development Officers will be to train new agents with a view to developing a stable agency force. The appointment letter, however, does not make any council of a stable agency force.

(b) "Rendering all service to policyholders as is conducive to better policy servicing" is one of the duties listed in the Blue Order. But there is no specific mention of this in the Appointment Letter.

(c) The Blue Order states that one of the primary duties of the Development Officers will be to develop and increase the production of new life insurance business in a planned manner. In the Appointment Letter, this has been abridged as "Organise and develop the business of the Corporation". Since the Blue Order is a general order, it was perhaps sufficient to define the duties of the Development Officer as that of developing and increasing the production of new life business in a planned way. But when individual appointment letters were issued on the basis of this definition, it was necessary to indicate a quantitative equivalent and to specify the minimum business expected or the cost ratio within which the Development Officer should work. The minimum business and minimum premium income necessary for confirmation are stated explicitly in the letter of appointment as a probationer. But such stipulations are absent, and find no place in the subsequent letter of confirmation. We have not been able to understand how and why this omission occurred.

8.82 It appears to us that these fundamental differences between the Blue Order and the Appointment Letter are the main cause for the lack of precision in the definition of the duties of the Development Officer and in the lack of enthusiasm among the Development Officers. The ambiguity of Appointment Letter appears to have given rise to basic misunderstanding between the Corporation and the Development Officers,

especially regarding the responsibility for developing and increasing new life business. We must point out here that in a pamphlet entitled "You be the Judge", the Development Officers have gone to the extent of saying that "the funniest part of the entire 'business' is that procuration of business is not at all a part of the Development Officers' duties.......... The job of—all salaried officials working on the Development side—(from Assistant Branch Manager to Divisional Manager—to Zonal Manager to Managing Director and Chairman) is to develop L.I.C.'s insurance business." During evidence, the National Federation of Insurance Field Workers of India informed us that the pamphlet that we have referred to was issued by their Bombay Divisional Association at a time of strain, and should not, therefore, be taken literally. However, since this pamphlet has been circulated to all Development Officers and even to outsiders, it cannot altogether be ignored It is unfortunate that anyone should contend or attempt to give the impression that developing and increasing new business is not the duty of the Development Officers

8.83 We have already stated that we could not find out how the Appointment Letter of the Development Officers omitted some of the specific duties mentioned in the earlier Blue Order. We feel that the Corporation should have sought and obtained the approval of the Government before making such important departures from a Government Order, like the Blue Order. *Since the differences between the Blue Order and the Appointment Letter appear to have given rise to misunderstandings we recommend that the Corporation should take the earliest opportunity to revise the appointment letter and ensure that it conforms to the Blue Order.*

Remuneration of Development Officers:

8.9.1. For the purpose of securing uniformity in the scales of remuneration and other terms and conditions of service of persons on the development side the Central Government issued an Order dated 30th December 1957 under Section 11(2) of the L.I.C. Act. This Order fixed the scales of pay and allowances of Development Officers. Thereafter a joint committee consisting of the representatives of the Corporation and Development Officers was appointed in the year 1961 to go into the terms and conditions of service of the Development Officers. There were changes in the conveyance allowance from time to time. In 1963, Federation of Development Officers submitted their demands for further revision of pay scales etc The Corporation negotiated with the Federation, and an agreement was reached on 10th March 1964 which provided for revised scales of pay, Dearness Allowance, hill allowance, Provident Fund, Gratuity and conveyance allowance.

8.9.2. The increments of Development Officers were originally based on an appraisal of their performance. By an agreement dated 9th March 1965, the Corporation decided to give regular annual increments in the time scale of pay to Development Officers. On the 20th May 1965 the Corporation introduced "efficiency bars" in the scales of pay and finalised the procedure for regular increments. For some time now, Development Officers have been pressing for the linking of their Dearness Allowance with the cost of living index, as in the case of Class III employees. The Corporation has not conceded this demand. However, the Corporation

granted increased in Dearness Allowance with effect from 1-7-64, 1-12-64, 1-4-65, 1-1-66 and 1-9-66.

8.9.3. Development Officers have been granted House Rent allowance with effect from July 1965 and Entertainment Allowance and Leave Travel Concession as per agreement dated October 1965. They were also given the benefit of a non-contributory medical assistance scheme with effect from 1-1-1966.

8.9.4. An agreement that the Corporation entered into on 24-12-66 has also provided for the payment of non-profit sharing bonus at the rate of 6 per cent of the basic pay.

8.9.5. The financial implications of the recent changes in the remuneration, the year in which they were granted, are as follows:—

(*i*) March 1964 Agreement—	
Salary Scales	Rs. 26 lakhs p.a.
Hill Allowance	Rs. 1 lakhs p.a.
Conveyance Allowance	Rs. 5·5 lakhs p.a.
Mileage etc.	Rs. 5 lakhs p.a.
	Rs. 37·5 lakhs p.a.
(*ii*) Increase in Dearness Allowance (July 1965 agreement)	Rs. 28·4 lakhs p.a.
House Rent allowance (July 1965 agreement)	Rs. 30 lakhs p.a.
Entertainment Allowance (Octoer 1965 agreement)	Rs. 1 lakh p.a.
	Rs. 59·4 lakhs p.a.
(*iii*) Increase in Dearness Allowance (December 1966 Agreement)	Rs. 44 lakhs p.a.
House Rent allowance without verification of rent (December 1966 agreement)	Rs. 15 lakhs p.a.
Bonus for 1964-65 and 1965-66	Rs. 35 lakhs
Bonus for 1966-67	Rs. 18 lakhs p.a.
	Rs. 112 lakhs

8.9.6. The average yearly emoluments of a Development Officer from 1958 to 1967-68 as shown in the following table indicate that the average emoluments increased by 80 per cent during this period.

TABLE 8·3

Year	Mean No. of Development Officers	Average yearly emoluments per Development Officer
1958	5026	Rs. 4,479
1959	5009	Rs. 4,863
1960	5498	Rs. 5,209
1961	6468	Rs. 5,044
1962-63	7668	Rs. 6,150
1963-64	8397	Rs. 5,383
1964-65	8653	Rs. 5,970
1965-66	8667	Rs. 6,727
1966-67	8563	Rs. 7,615
1967-68	8440	Rs. 8,050

Other facilities:

8.9.7. In addition to pay and allowances as detailed above the Development Officers are given facilities to buy and use a fast vehicle—a scooter, motor cycle or motor car—depending upon his permanent salary and length of service. For this purpose they are given interest free loans up to the full value of the vehicle.

8.9.8. Development Officers whose business is Rs. 20 lakhs and above are also allowed the facility of a telephone. The Corporation bears the installation charges, maintenance charges and call charges upto 300 calls.

8.9.9. Development Officers are eligible for retirement benefits—Provident Fund and Gratuity. They are also given a stationery allowance of Rs. 20/- per annum.

8.9.10. It will, thus, be seen that the Corporation has been liberal in giving Development Officers various allowances and facilities required for mobility of contact and communication.

Appraisal of Work:

8.10.1 Though a time scale was fixed for the cadre of Development Officers, increments were not originally given as a matter of routine. The Blue Order provided for an overall appraisal of the Development Officers' work every year and listed the factors that were to be taken into consideration in appraising the work of a Development Officer. The Corporation has formulated a scheme for assessing the performance of Development Officers for the purpose of determining increments. It can easily be seen that since the Development Officer's work is mostly on the field and relates to developing business and recruiting and motivating agents an annual or periodic assessment of performance is essential before increments are granted. The conditions laid down by the Corporation for granting increments varied from year to year, and were improved in the light of experience. With regard to the 1958 performance, it was decided to grant an increment to those Development Officers who showed a percentage increase in New Business and First Year's premium of at least half the percentage increase under Sum Assured recorded by the Divisional Office. A regular appraisal formula based on the different functions of the Development Officers was introduced in 1961. There were some modifications made in the details of this formula from year to year, but the general approach has remained unchanged.

8.10.2. For example, in the calender year 1961, the Development Officer was considered eligible to one increment if he satisfied *any one* of the following criteria:

1. Expense ratio was 16-2/3 per cent or below.
2. The number of agents recruited and made qualified during the year was not less than the prescribed minimum, (varying from 6 to 12, depending on the basic salary).
3. The increase in New Business Sum Assured over that in the previous year was at least 15 per cent and the increase in the First Year Premium income over that in the previous year was also at least 15 per cent.

4. The increase in the New Business Sum Assured was at least 15 per cent over that in the previous year and any one of the following conditions was satisfied:

   (a) The increase in the number of active agents over that in the previous year was 20 per cent.

   (b) The reduction in the expense ratio over that in the previous year was 20 per cent.

   (c) The service rendered to the policyholders was satisfactory.

8.10.3. It will be seen from these criteria that the Development Officer was required to satisfy only one of the four main conditions to be regarded as eligible for an increment. In other words, he was granted an increment, provided only one aspect of his various duties was considered satisfactory, even if his performance with regard to the other factors was very unsatisfactory. For example, a Development Officer with a very high expense ratio would be given an increment, provided he had recruited and made qualified a minimum number of agents, under criterion (2) referred to earlier; in applying this criterion an agent who was recruited during the second half of the year need complete only 50 per cent of the business quota ordinarily required for an agent to be qualified.

8.10.4. The above formula is against the provisions of the Blue Order which specifically states that "A Development Officer may be granted one or more increments in the scale depending upon his success under *all* the heads mentioned" *"taken together* collectively" (Underlining ours). These heads are:

(i) The volume of new business procured by or through the Development Officer. (Under this item will be taken into account not only the total sums assured, but also the number of lives assured and the increase in the volume of new business procured by or through the efforts of the Development Officer.)

(ii) The ratio of expense incurred, to the first year's scheduled premium income;

(iii) The efforts made in recruiting, training and motivating new agents and in activising existing agents;

(iv) The routine services rendered to policyholders.

8.10.5. Even as these heads stand, they are not unexceptionable for they do not refer to the quality of new business. However, the disparity between the Blue Order and the Corporation's scheme is that when the Blue Order specifically states that all the heads will be taken together *collectively,* the Corporation made them applicable as *alternative* heads. The ratio of the expenses to the premium "is only one of the factors which will be taken into account in the overall appraisal". By making the various factors alternative instead of cumulative, the Corporation neither encouraged the creation of a stable agency force, nor took advantage of the control on the cost ratio prevalent in pre-nationalisation days.

8.10.6. The formula that has been described above has many other defects. One of the criteria refers to the increase in business (both sum assured and premium income) over the previous year and not to the highest level reached over the past 2 or 3 years, or even the average level reached over a period of time. In the evidence before the Committee, we were often told that many Development Officers took advantage of this criterion, by decreasing their business in one year, so that in the next year they could show an increase and qualify for an increment by doing business at the original level in the year preceding the one in which they had shown an artificial and deliberate decrease. In the year in which the business was allowed to drop, the Development Officer would take care that he did well in another respect, and was eligible for increment under another criterion.

8.10.7. Nothing in the criteria referred to the incidence of lapsation. Lapses were not therefore taken into account for the purposes of appraisal, and so, there was no check on the quality of business introduced by the Development Officers.

8.10.8. It will thus be seen that the Corporation has been quite liberal with the Development Officers as far as the grant of increments is concerned. We have already pointed out that the defective nature of the scheme enabled shrewd persons to derive benefits out of this scheme by increasing and decreasing business in successive years, even though there was practically no increase in business over the years.

8.10.9. With effect from 1st April 1965, the Corporation agreed to give normal grade increments, automatically to Development Officers. This meant that even the defective appraisal formula was given up and replaced by a system of automatic increment, which, according to us, was much more defective. We do not think that the Development Officers can be treated on par with other categories of staff, i.e. those belonging to Class I, III and IV of the L.I.C. Development Officers are essentially field workers. Their job is mostly to contact agents and prospective policyholders in the field, whereas the other categories of staff spend a fixed number of hours at their desk inside the office doing the work allotted to them. It is not, therefore, possible to exercise effective day-to-day supervision over the work done by the Development Officer and to make sure that a Development Officer has put in the minimum quantum of effort every day. It, therefore, becomes necessary that their remuneration and prospects should be related to the results of the efforts they might have put in, and consequently, among other things on the new business sum assured and the First Year Premium Income under their organisation. Though the earlier criteria for granting increments were defective, they symbolized an attempt to measure the efforts put in by the Development Officers and link increments to their performance. The grant of automatic increments has removed the relation between increments and performance and taken away the impetus to work. This has consequently increased the cost per policy, and we shall deal in greater detail with this effect in a later section.

8.10.10. The argument that automatic increment had to be granted to the Development Officers because of their insistent demand (which culminated in the Agreement of 10th March 1964) and the possibility that continued agitation by them might have resulted in a fall in the business does not appear to us to be sound or even defensible. If this analogy is

to be stretched to its logical extreme, agents may also have to be given a salary scale, if they make such a demand and start an agitation, since the L.I.C. cannot procure new business without the help of Agents. It need not be emphasised that a step which cannot be justified in itself cannot be justified on the ground that it had to be conceded for fear of fall in business.

8.10.11. During evidence, many witnesses expressed the view that the grant of this automatic increment has been a very unwise step. As the increment has become automatic, Development Officers have no longer to depend on performance for these routine increments. Though it is open to them to earn additional benefits like multiple increments, etc. they do not feel attracted to make the extra effort even to earn these additional benefits unless they are constantly prodded and persuaded by supervising officers.

Incentives:

8.11. The private sector did not have any special incentive schemes of the kind that obtain in the Corporation today. The Corporation probably considered it necessary to evolve an incentive scheme that would bring out the full capacity of a Development Officer. It, therefore, formulated schemes that would enable the Development Officer to earn one or more permanent increments, one or more temporary increments and a bonus commission.

Multiple Increment Scheme:

8.12.1. Right from the beginning, the incentive schemes provided for two or three increments. Even after the automatic increment scheme came into force, the provision for two or three increments remained in force.

8.12.2. A Development Officer, whose business was less than Rs. 20 lakhs, was entitled to one additional increment, provided his cost ratio did not exceed 15 per cent and his business production had increased by 30 per cent over the previous year, and to two additional increments, with the same percentage increase in business, if his cost ratio did not exceed 10 per cent.

8.12.3. Where the business production of a Development Officer during the year of appraisal exceeded Rs. 20 lakhs, the Development Officer was eligible for one additional increment if the cost ratio did not exceed 8 per cent, and to two additional increments, if the cost ratio did not exceed 5 per cent.

8.12.4. Where the Development Officer had already reached the maximum grade salary, it was not possible to give any additional increments, and so cash awards were given.

Temporary Increments Scheme:

8.13.1. Under this scheme, which has also been in force from the beginning, the Development Officer becomes entitled, during the following year, to a basic salary that was determined on the basis of his scheduled premium income during the year of appraisal. The difference between the basic salary to which he was so entitled and his actual basic salary (together with the permanent multiple increments he was entitled was to under

the Multiple Increment Scheme), constituted the Temporary Increments granted to him. If such temporary increments were earned for three consecutive years, they were permanently incorporated in his salary for the remaining period of his working life time, regardless of his future performance.

8.13.2. The circular No. DD/VHV dated 30th August 1958, regarding the Temporary Increments Scheme starts with the following statement:

> "The Chairman has decided that the cases of those Field Officers who, in the opinion of the Zonal Manager, are not adequately rewarded under the categorisation scheme, would be dealt with in the following manner".

It, therefore, appears that this scheme was originally meant for Development Officers, who, at the time of categorisation, were placed at a stage lower than what was justified or deserved. However, no such distinction was made in the application of these schemes. They were made applicable to all Development Officers, including new recruits, and were allowed to continue in subsequent years too with some minor changes.

Incentive Bonus Scheme:

8.14. Under this Scheme, the Development Officer was paid a special incentive bonus when his scheduled premium income during the year of appraisal exceeded 6 times his annual remuneration, i.e. when his cost ratio was less than 16-2/3 per cent. The rates for the bonus were the following:—

	Incentive Bonus
(*a*) Scheduled first year's premium Income in excess of 6 times the total remuneration .	5% of such excess.
(*b*) Scheduled first year's premium income in excess of 8 times the total remuneration .	Additional 2½ % of such excess.
(*c*) Scheduled first year's premium income in excess of 10 times the total remuneration	Additional 2½ % of such excess.

Drawbacks of the above three Schemes:

8.15.1. The schemes of incentives that we have outlined in the preceding paragraphs suffer from a number of defects as shown below:—

1.(a) One or more additional permanent increments are given on the basis of performance during an extremely short period. In other words, a permanent addition in the salary for the rest of his working life time, is granted under the permanent increment scheme, on the basis of the performance of one year. The main drawback of such an arrangement is that it will be advantageous to a Development Officer even to spend money from his own pocket and buy insurance policies either from parties or Agents or other Development Officers; if this procures him a permanent increment the expenditure that he incurs will be a small price for the permanent increments he gets for the rest of his working life.

(b) The permanent increment is granted in the year next to the one in which he earns the increment with his performance. Unless, therefore, this performance is adequately improved upon, the cost ratio increases in the next year. Thus the grant of a permanent increment has a tendency to increase the cost ratio unless the Development Officer keeps on bettering his performance every year.

(c) Another major defect in the Scheme is that the criterion used relates only to the improvement in performance during the year of appraisal over that of the preceding year, without any regard to the production record during earlier years. As we have already pointed out, this limitation permits the manipulation of performance to acquire eligibility for increments.

2. The temporary increments are to be made permanent if the performance is repeated for three years. Three years too cannot be regarded as a long enough period to form the basis of a decision on a permanent increment.

3. The temporary increments scheme also brings a Development Officer to the top of the salary grade at an early date in his working life, thus promoting slackness and frustration during later years.

4. The schemes take into account only the new business sum assured and/or scheduled premium income, and do not allow for lapses (except to some extent in the case of Temporary Increments) so that the quality of business of the Development Officer is ignored, even while giving permanent benefits like multiple increments etc. The difficulty in making allowance for lapses appears to be that frequently up-to-date statistics of lapsation could not be secured in time for use in appraisal. This difficulty could be met by using the lapse rate of the Development Officer in the year *preceding* the year of appraisal instead of ignoring lapses altogether.

5. The schemes give importance only to the Development Officers' performance in respect of New Business production and the cost ratio. No importance is attached to the improvement in the size and strength of the Development Officers' agency organisation. This is indeed unfortunate, since it is only the strength of the agency organisation that can produce permanent results and can, therefore, be justly made the basis for permanent benefits, like permanent increments.

6. When the Development Officers who secure Temporary increments also become entitled to the Incentive Bonus, the resulting cost (when both temporary increments and incentive bonus are added to the basic remuneration) frequently exceeds 15 per cent appreciably, and at times, even exceeds 20 per cent.

8.15.2. A note entitled "Scheme of incentives for Development Officers" submitted by the Corporation to the Eighth All India Divisional Manager's Conference, July, 1967, observed that "it is essential that schemes of incentives should also take into account the quality of the business produced and create trends in favour of development of a stable and efficient sales organisation and reduction of costs of procuration of business by reducing wastage. The current schemes of incentives are based mainly on the

volume of business and the cost of procuration, but they do not give adequate weight to the quality of business produced or the size and quality of the agency organisation".

8.15.3. The Note also says that experience has shown "that unscrupulous workers have taken advantage of the loopholes afforded by this feature, to secure a number of additional increments, without effecting any appreciable rise in the level of new business production by contriving to show high and low production figures in alternate years".

8.15.4. The following extracts from Circular DD/VHV of 30th August 1958 confirm that the Corporation itself was aware of some of the defects in the scheme.

> "The Chairman desires to reiterate his earlier views that we should not try to regard the Field Officers by making a permanent commitment in the form of advance increments on the basis of performance of just one year or two years."

The circular then goes on to say:

> "However the Chairman has now agreed"
> to sanction the first temporary
> increment scheme.

These excerpts show that even in 1958 the Chairman realised that it was not proper to give permanent increments on the basis of performance of just one or two years. It could easily be seen that such permanent increments could act as "deferred disincentives". We are, therefore, surprised that the Corporation changed its views in this matter. We fail to understand how this change was brought about, and it was finally decided to reward the performance for a short period with permanent benefits and additions to salary.

8.16. *Disincentives.*—It is surprising that the Corporation has no scheme of disincentives for the Development Officers. All components of the Development Officers' remuneration are independent of their business and premium income, except that the multiple and temporary increments and the incentive bonus given to a Development Officer are based on the new premium income and/or increase in New Business. The latter also have no element of disincentives.

8.17.1. *Position after 1st April* 1968.—We understand that with effect from the 1st April 1968, the Corporation has abolished all incentive schemes except the incentive bonus (Commission) scheme. This in effect means that the multiple increments and temporary increments schemes have been withdrawn and only the scheme of incentive bonus (commission) is operative from 1st April 1968. We have already stated our view that the discontinuance of the multiple and temporary increments schemes is a step in the right direction. *We, accordingly, recommend that the schemes of temporary increments and multiple increments should not be revived.*

8.17.2. We are of the opinion that any incentives to Development Officers should be given only in the form of an incentive bonus (commission) based on performance. We find, as we have already stated earlier, that the

present scheme of incentive bonuses does not take into account the quality of business, but is based only on the scheduled first year premium income. In the Chapter on Agents we have referred to the fact that the net increase in total premium income will make proper allowance for lapses and will ensure that the business secured is of good quality. We have also recommended that the new bonus commission to agents should depend upon the net increase in the total premium income of the agents. *For similar reasons we recommend that the net increase in the total premiums collected under the Development Officer's organisation (Adjusted for claims and premiums ceasing under whole life limited payment policies) should be regarded as one of the factors that should determine the incentive bonus. The actual amount of the incentive bonus (commission) to a Development Officer should be arrived as after taking into consideration all the factors referred to in Para 7(2) of the Blue Order, besides the net increase in total premiums.*

8.18. It may be instructive to examine the actual performance of the Development Officers under the following heads:

(i) Production of new business;

(ii) The cost ratio;

(iii) Recruitment, training and activising of agents, and developing a stable agency force; and

(iv) Policy servicing.

8.19.1 *Production of new Life Insurance Business.*—Development of business is the most important function of a Development Officer. The following table gives the average production (sum assured) per Development Officer and the number of new policies per Development Officer:

TABLE 8·4

Year	Average Sum Assured per Development Officer (In lakhs of Rupees)	Average No. of policies per Development Officer.
1958 . . .	6·5	179
1959 . . .	7·5	213
1960 . . .	7·8	213
1961 . . .	7·9	212
1962-63 . .	6·7*@	170*@
1963-64 . .	7·5	183
1964-65 . .	7·4	157
1965-66 . .	8·6	169
1966-67 . .	8·3	154
1967-68 . .	9·3	158

@*Annual Average.

8.19.2. The table shows that the average production per Development Officer increased from Rs. 6.5 lakhs in 1958 to Rs. 7.9 lakhs in 1961, and thereafter, fell to Rs. 7.4 lakhs in 1964-65. There has been a rise in 1965-66, followed by a fall in 1966-67, and a subsequent rise in 1967-68.

8.19.3. The Division wise figures of the average production of Development Officer given in Appendix 11 indicate that the average production per Development Officer in 1967-68 was as low as Rs. 6.8 lakhs in Chandigarh Divisional Office and Rs. 6.9 lakhs in Jullundur Divisional Office. The average production is less than Rs. 10 lakhs (which is a notional target for a Development Officer) in 24 out of the 36 Divisions.

8.19.4. The average sum assured per Development Officer does not give a correct picture of the efforts of the Development Officer, since the average sum assured per policy (in India) has been increasing over this period, from Rs. 3,551/- in 1958 to Rs. 5,869|- in 1967-68.

8.19.5. The number of policies may, therefore, be taken as a more meaningful index for judging the efforts of Development Officers. On the basis of this index, it can be observed, from the table at the beginning of this section that the Development Officers are not putting in their best for the Corporation. The number of new policies per Development Officer increased to 213 in 1960, and thereafter, decreased to 157 in 1964-65. Subsequently, the number showed a slight and temporary increase in 1965-66, but fell to 158 in 1967-68. The fall from 1961 is of the order of 26 per cent, indicating that there has been considerable slackening in the efforts of the Development Officers in recent years. We may point out here that 158 policies in a year means only about 13 policies a month, and assuming that, on the average, a Development Officer has 20 agents under him, this works out to less than one policy per month per agents.

8.19.6. The cost per policy in respect of the remuneration of Development Officers is shown in the following table:—

TABLE 8·5

Year	Amount spent on Development Officer per Policy.
	Rs.
1958	25·0
1959	22·8
1960	24·5
1961	23·8
1962-63	28·8
1963-64	29·4
1964-65	38·1
1965-66	39·7
1966-67	49·4
1967-68	51·1

It may be observed from the above Table that the cost per policy on Development Officer rose from Rs. 25.0 in 1958 to Rs. 51.1 in 1967-68, *i.e.* by roughly 104 per cent.

8.19.7. We have recommended (in the Chapter on "Agents") that an agent should secure policies on at least 12 different lives every year. On this assumption, the number of lives assured through the agents working under a Development Officer would work out to 240. Even assuming that on an average a Development Officer has only 15 agents under him, it is reasonable to expect that the Development Officer should secure assurances on a minimum number of 180 lives in a year. While this should be the minimum for the last slab of the salary scale, the minimum number should be correspondingly increased for the higher slabs in the salary scale. *We accordingly recommend that during each year a Development Officer should secure assurances on a minimum number of* 180 *lives, or twelve times the number of agents working under him, whichever is higher. While this number should be the minimum for the last slab of the salary scale, the minimum number should be correspondingly increased for the higher slabs in the salary scale.*

8.19.8. Quite often, averages by themselves do not give a complete picture. We shall, therefore, look at the percentages of Development Officers, completing a business of Rs. 5 lakhs or below, Rs. 5 to 9 lakhs, Rs. 9 to 11 lakhs, and above Rs. 11 lakhs, in the years 1965-66, 1966-67 and 1967-68 in each Zone.

TABLE 8·6.

Percentages of Development Officers who did business of

Zones	Rs. 5 lakhs or below			Between Rs. 5—9 lakhs			Between Rs. 9—11 lakhs			Above Rs. 11 lakhs.		
	1965-66	1966-67	1967-68	1965-66	1966-67	1967-68	1965-66	1966-67	1967-68	1965-66	1966-67	1967-68
Northern	49·3	58·6	43·3	33·4	31·0	33·8	6·1	5·6	8·1	11·2	9·8	14·8
Central	43·8	44·7	31·9	38·0	38·8	41·2	6·8	6·8	9·4	11·4	9·7	17·5
Eastern	36·0	39·5	33·8	38·7	34·9	37·6	9·0	9·2	10·3	16·3	16·4	18·3
Southern	11·1	11·3	12·0	40·4	39·0	34·8	18·6	16·4	17·0	29·9	33·3	36·2
Western	19·1	19·7	15·7	38·1	38·2	33·8	12·2	12·3	13·2	30·6	29·8	37·3
All Zones	30·7	32·6	26·4	37·9	36·5	36·1	10·9	10·4	11·9	20·5	20·5	25·6

8.19.9. The Table shows that during the last 3 years, about 50 per cent of the Development Officers in the Northern Zone, have secured only a new business of Rs. 5 lakhs or below, and in the Central Zone, this percentage has varied from 31.9 to 44.7. In the Eastern Zone the percentage was nearly 35. Taking the Corporation as a whole about 30 per cent of the total number of Development Officers could not complete more than Rs. 5 lakhs of business. Similar percentages for the various Divisional Offices are given in Appendix 11. These indicate that the performance of Delhi was the worst—49.9 per cent of the Development Officers in this Division secured only less than Rs. 5 lakhs worth of business in 1967-68.

8.19.10. We learn from the Corporation that the business expected per Development Officer is Rs. 10 lakhs. If this is the standard that the Corporation has set or visualized for the Development Officers, it must be pointed out that nearly 75 per cent of the Development Officers have failed to reach the expected standard. Though this is the overall position, the picture according to Zones, is even more disappointing. About 85 per cent are below par in the Northern and Central Zones, and 80 per cent in the Eastern Zone; the south and West Zones are slightly better with about 60 per cent below par.

8.19.11. It is, therefore, clear that the performance of Development Officers has been extremely disappointing from the point of view of the main function for which their cadre was created, viz., to develop new business. We regret to say that our examination of the results of their work has convinced us that their achievements have been extremely unsatisfactory and totally incommensurate with the generous terms and conditions and facilities given to them and the various "incentive schemes" that the Corporation devised to induce the Development Officers to increase their efforts.

8.19.12. It may be argued that the deterioration in peformance is probably due to factors beyond the control of the Development Officers, like the change in the economic conditions. Appendix 12 gives the names and sum assured of the Development Officers who have produced the maximum business in the year 1966-67 and 1967-68 as also the names of the Development Officers whose business has been the minimum for the corresponding years. It will be seen from this Appendix that during the year 1966-67 in Ajmer Divisional Office the maximum business brought in was Rs. 32.5 lakhs while the minimum business was only Rs. 8,000 sum assured. Similarly in Meerut while the maximum business was Rs. 30.2 lakhs, the minimum business was nil.

8.19.13. We cannot therefore avoid the conclusion that a very large number of Development Officers has been inexcusably slack in their efforts. *We accordingly recommend that the Corporation should fix suitable norms for the new sum assured that should be procured through Development Officers, and should strictly enforce the norms that they may decide to prescribe.*

Cost Ratio

8.20.1. The Development Officer's remuneration expressed as a percentage of the Scheduled Premium Income (A definition of scheduled premium income is indicated in Appendix 13) is the Development Officer's

cost ratio. The cost at which the Development Officer is procuring business is now calculated on the basis of the Development Officer's remuneration. But out of the total remuneration that the Development Officer receives only the basic pay including personal pay, dearness allowance, conveyance allowance, bonus and entertainment allowance are taken into account for this calculation. The incentive bonus, travelling expenses, contribution to Provident Fund and other retirement benefits, medical and other benefits etc. that the Development Officer receives are not taken into account. The expenses so excluded are in no way different from the others. *We, therefore, recommend that for calculating the cost ratio of a Development Officer all emoluments paid to him should be taken into account.*

8.20.2. The distribution of Development Officers according to the cost ratio for the years 1965-66, 1966-67 and 1967-68 is given below (zonewise and all zones combined).

TABLE 8·7

Percentage of Development Officers with Cost Ratio

Zone	15% or below			Between 15%—20%			Between 20%—40%			Over 40%		
	1965-66	1966-67	1967-68	1965-66	1966-67	1967-68	1965-66	1966-67	1967-68	1965-66	1966-67	1967-68
	%	%	%	%	%	%	%	%	%	%	%	%
Northern.	15·9	13·2	11·1	15·8	11·7	9·5	46·8	45·8	44·4	21·5	29·3	35·0
Central	16·6	12·5	13·5	18·5	10·2	9·9	49·0	60·1	48·3	15·9	17·2	28·3
Eastern	18·3	14·2	13·9	20·9	17·2	12·0	45·2	47·4	46·3	15·6	21·2	27·8
Southern.	37·1	31·6	23·9	28·3	25·0	22·4	31·7	38·5	44·7	2·9	4·9	9·0
Western	39·4	34·5	28·1	24·5	21·3	22·7	31·6	38·2	42·3	4·5	6·0	6·9
All Zones	26·2	21·8	18·5	22·0	17·7	15·7	40·2	45·3	45·2	11·6	15·2	20·6

8.20.3. It can be seen from the overall figures for 'All Zones' that the number of Development Officers whose cost ratio was less than 15 per cent formed only about 21.8 per cent of the total number in 1966-67. It came down to 18.5 per cent in 1967-68. Considering the position that obtained in the individual Zones, it can be seen that the experience of the Northern, Central and Eastern Zones was below the all-India Averages.

8.20.4. Taking the position with regard to Development Officers whose cost ratios were over 40 per cent, it can be seen that 15.2 per cent of the Development Officers of the Corporation in 1966-67 were over this cost-limit. This percentage rose in 1967-68 to 20.6 per cent. In other words, in 1966-67 there were 1200 Development Officers whose cost ratio was over 40 per cent and in 1967-68, this number rose to 1600. Here also the experience of the Northern, Central and Eastern Zones is worse than the All-India experience, the experience of the Northern Zone being the worst of all. In 1966-67, 29.3 per cent of the Development Officers in that Zone were over the 40 per cent cost-limit and in the year 1967-68, 35.0 per cent of the Development Officers were over the 40 per cent cost limit.

8.20.5. Similar percentages for various Divisional Offices are shown in Appendix 14.

8.20.6. When we are examining the costs incurred on an intermediary between the insurance agent and the Branch Manager of the Corporation, we have to remember that, nationalisation and the elimination of competition have reduced the need for such an intermediary. This should have helped the Corporation to reduce the costs incurred on such an intermediary. Since the terms of remuneration of the various intermediaries, other than the Special Agents, in the pre-nationalisation days were so varying that one cannot have a precise idea of the norm in this regard, it may perhaps be safe to base our arguments on the remuneration payable to the Special Agents.

According to the Insurance Act, Special Agents were to be remunerated in the form of a commission not exceeding 15 per cent of the premiums brought in through their organisation. It will therefore be fair to conclude that the expenses incurred on the Development Officers of the Corporation should be limited to a maximum of 15 per cent of the premium income received through their organisation.

8.20.7. The Chairman of the Corporation informed us that where the cost ratio was high, the Corporation proposed to take action under Regulation 39. He expressed the view that taking all the payments to the Development Officers into account, a cost ratio of 20 per cent to 25 per cent should be considered as the tolerance limit. Below 20 per cent there should be rewards. Where the cost ratio is above 50 per cent the Development Officer's emoluments should immediately be brought down to be within a cost-ratio of 50 per cent. Thereafter, the Development Officer should come within the tolerance limit within a period of two or three years; otherwise action should be taken against him. We consider these percentages as too high and we have already explained the reasons for our view. At the other extreme we consider that a cost ratio of 40 per cent is sufficiently bad to warrant drastic action. *We, therefore, recommend that the total emoluments of Development Officers, whose cost ratios,*

based on the entire cost incurred on them, has been more than 40 *per cent in the immediately preceding appraisal year, should be immediately brought down to ensure that the reduced cost incurred on them works out to* 40 *per cent of the Scheduled Premium Income during that appraisal year. If the Development Officer is not agreeable to this arrangement his services may be terminated, as it would then be obvious that he is not interested in the job.*

There are some Development Officers who are between the two extremes referred to above. Though their performance cannot be considered satisfactory, it is reasonable to give them some time to improve their performance. Accordingly, we recommend that Development Officers whose cost ratios have been between 15 *per cent and* 40 *per cent during the immediately preceding appraisal year, or Officers whose emoluments have been adjusted as stated above, should be given a maximum period of* 4 *years to bring down their cost ratios to within* 15 *per cent. In the case of Development Officers who have thus been given periods exceeding one year, the reduction in the cost ratio to* 15 *per cent should be effected by suitable stages so that reductions go on diminishing in successive years. If at the end of any year during this period, the cost ratio of any Development Officer is above the stage fixed for that year, his total emoluments, inclusive of all costs incurred on him should be reduced so that the cost ratio based on the reduced emoluments is within the limits fixed for that year.*

When the period of transition ends, the cost ratio of Development Officers including incentive bonuses should not exceed 15 *per cent. In case the Scheduled Premium Income of a Development Officer is not upto the standard on the basis of the* 15 *per cent cost ratio, it would be necessary that the excess amount paid to him (i.e. in excess of what is justified by the Scheduled Premium Income brought by him) should be recovered from him either in a lump sum or in instalments over the following year. This would only mean that in the following year too the Development Officer's gross emoluments remain at the same level as in the previous year. Hence in order to be within the cost ratio of* 15 *per cent in the succeding year as well he would have to produce a Schedule Premium Income that justifies his emoluments. As an alternative, he may be given the option to have his gross emoluments in the following year reduced suitably to keep him with in the cost ratio of* 15 *per cent.*

Recruiting, training and activising Agents and developing a stable agency force.

8.21.1. Another important duty of the Development Officer is to recruit new agents. Even in this respect, the performance of Development Officers has been poor. A study made by the Corporation revealed that the number of agents recruited per Development Officer decreased, on an average, by 48 per cent from 1961 to 1966-67. The fall in the rate of recruitment of agents may not be a bad feature, if it is accompanied by an improvement of the quality of persons recruited, but unfortunately, it cannot be claimed that the agency organisation has improved. In fact, there is a visible deterioration as is evident from the fact that in 1961, the average number of policies per agent was 11.7 whereas in 1966-67, it decreased to to 9.8.

8.21.2. According to the Blue Order, Development Officers are expected to develop a stable agency force. We have pointed out in the Chapter on 'Agents that the Corporation made a sample study from the data available in the 22 Divisional Offices covering agents recruited during the years 1962-63 to 1964-65, and found that out of 100 agents recruited, only 55 remained in the profession at the end of the first year following the year of of recruitment and 38 remained at the end of the second year. This investigation referred to all agents including direct and staff agents, but since the percentage of direct and staff agents is very small, the same conclusions can perhaps be drawn regarding the agents appointed by Development Officers also. It is clear that such a state of affairs results in huge wastage of expenses in recruiting and training agents. It should be remembered that an insurance agent is appointed (by the Branch Manager of L.I.C.) as an agent of the Corporation, on the recommendations of the Development Officer. The heavy turnover of the Agency force has therefore to be taken as a sad reflection on the competence of the Development Officers. It also suggests that the agents recruited have not been persons with the necessary aptitude and enthusiasm for selling insurance. In the Chapter on 'Agents' we have recommended certain steps to improve the quality of the agency force and we have also recommended that the total number of agents at any one time should be restricted, as no useful purpose is served in having a large number of inefficent and unproductive agents. *We, therefore, recommend that a Development Officer may have a maximum of* 15 *agents under him. It may sometimes happen that a Development Officer already has more than* 15 *Agents in his organisation. In that case it is not our intention to put him at a disadvantage by suggesting any reduction. We, therefore, recommend that if any Development Officer has more than* 15 *Agents, he may be allowed to maintain the same strength of Agents.*

8.21.3. It is necessary here to refer to two aspects of the Corporation's agency force, viz. (a) allotted agents and (b) agents who have completed five years' service and are working under Development Officers.

Allotted Agents:

8.22. When Development Officer resigns or retires or is promoted as an A.B.M.(D) the present practice of the Corporation is to keep agents who have been working under him and doing a business of over Rs. 3 lakhs for the previous 3 agency years, as direct agents and not to allot them to any Development Officer. Agents, (working in an open area) who have, been doing more than Rs. 1 lakh but not more than Rs. 3 lakhs on an average over the last 3 years are normally maintaned as direct agents, but allotment of such agents to a new Development Officer is considered on a partial credit basis where the Divisional Manager is satisfied that the agent requires the assistance of a Development Officer to achieve maximum results; the Development Officer is given only 50 per cent credit for the business brought in by such allotted Agents for the business done by the agents upto the average of the previous 3 years; for business done inexcess of the previous 3 years' average, full credit is given. In exclusive areas such agents are generally allotted to a new Development Officer, but credit is given only on a partial basis. Agents whose average annual production for the last 3 agency years was not more than Rs. 1 lakh are allotted to other Development Officers without any restriction, and full credit for the agent's business is given to the new Development Officer. We have to point out here that an agent who is

allotted has already been trained by the earlier Development Officer. The new Development Officer has not recruited him, nor has he trained him. So he should not be allowed full credit for the entire business even in the case of agents who have done less than Rs. 1 lakh in the last 3 agency years. The difference in the allocation of credit between agents who have done less than Rs. 1 lakh, and agents who have done between Rs. 1 lakh and Rs. 3 lakhs, appears rather arbitrary. We are of the opinion that there is no case to grant credit to the new Development Officer for the business that a newly allotted agent may bring in, if the volume of this subiness is only equal to the annual average of the Agent for the last 3 years. *We, therefore recommend that credit should be given to the new Development Officer only to the extents of the excess of the business done by the allotted agent over the previous 3 years' average.*

8.23.1. In the letter of appointment of Development Officers, there is a clause that reads as follows:—

> "After an agent has continuously worked for the Corporation for a period of 5 years and over, and the Branch Manager is of the opinion that he is no longer in need of the help and guidance of any Development Officer, such an agent can be treated as a Direct Agent even if he has been recruited and trained by you."

8.23.2. We asked the Corporation to tell us the number of cases in which they had invoked the authority of this clause and converted agents into 'Direct Agents'. The Corporation replied that :—

> "...... only a few agents are made direct. Details of such agents who are made direct are not readily available. The decisions to make agents direct are taken either on transfers, retirement, deaths of Development Officers, or on their promotions as A.B.M.(D). At the same time, if the Branch Manager feels that the agents, left to himself, cannot take proper interest in his work, he is attached to a Development Officer for proper motivation."

This reply of the Corporation has given us the impression that it was as a matter of policy that the Corporation did not make use of the right. When the Agents completed 5 years of service, the Corporation never examined his case to find out whether he was competent enough to work by himself or not. It appears to us that this is the main reason why a stable agency force could not be built up even though the Corporation has been working for more than 12 years. It is also quite surprising that statistics are not available on such a vital matter. *We, therefore, recommend that when an Agent completes five years of work, the Corporation should examine whether he continues to require the help and guidance of a Development Officer and if it is found that the Agent can work efficiently on his own, he should immediately be appointed a 'Direct Agent' keeping in view the number of Agents in the demarcated areas and its effect on the concerned Development Officers.*

8.24. *Policy Servicing.*—The Blue Order mentions 'policy servicing' as one of the duties of the Development Officers. However, in the appointment letter issued to the Development Officers this has not been specifically mentioned as one of their duties. The Appointment Letter prescribes

'claim investigation' as one of the duties of the Development Officer. But this cannot be regarded as a service to the policy-holders. It may even be said that claims need to be investigated only because the quality of sales has been poor. In the appraisal formula, services rendered to the policyholder were, *inter-alia,* listed as one of the conditions for grant of an increment. However, the details of service to be rendered by the Development Officers to the policyholders have not been mentioned and no standard for measuring the services rendered by the Development Officers to the policyholders has been prescribed. Since policyholders' servicing was only mentioned in the abstract and not defined in measurable terms, Development Officers did not pay any specific attention to servicing. We could not find any evidence that Development Officers rendered any service to policyhelders (except that they helped the Corporation in investigating early claims) or even considered this as one of their obligatory duties. We have recommended (in the Chapter on 'Agents') that agents must be entrusted with such service as may be considered reasonable and practicable by the Corporation. *We, therefore, recommend that Development Officers too should render such services to policyholders as may be decided upon by the Corporation.*

8.25.1. *Disciplinary Action.*—When the output or performance of an employee is not upto the mark, the employer usually adopts various methods to get an improvement in productivity through persuasion, exhortation and as a last resort, through recourse to disciplinary action. The Blue Order provides that "in case unsatisfactory performance of duties by a Development Officer, or if a Development Officer shows negligence in his work or is guilty of misconduct or is otherwise incapable of discharging his duties satisfactorily, his remuneration may be reduced, or his services may be terminated, after giving him an opportunity of showing cause against the action proposed to be taken in regard to him and after conducting such enquiry as the Corporation thinks fit."

8.25.2. Clause 10(b) of the Blue Order states that the "services of any Development Officer may, with the prior approval of the Chairman of the Corporation be terminated, without assigning any reason after giving the Development officer three months' notice thereof in writing." The Development Officers of the Corporation are also governed by the LIC Staff Regulations, 1960. Regulation 39 provides for penalty to an employee who commits a breach of the Regulation or who displays inefficiency or indolence or knowingly does anything detrimental to the interest of the Corporation...... We have already made our observation on Regulation 39 in our Chapter on 'Personnel'.

8.25.3. It has been represented to us during evidence that action under this Regulation involved a lengthy procedure and it often became difficult to take action against many at the same time, since a number of enquiry officers would be required. Moreover, action against large number of officers would also adversely affect the business of the Corporation. Another point of view which was put forward was that Regulation 39 was too imprecise to be adequate. It referred to inefficiency or indolence or knowingly doing anything detrimental to the interest of the Corporation, but did not give a clear definition of negligence, inefficiency or indolence. In

the absence of such a clear definition and with no reference in the appointment letter to either minimum business or maximum expense ratio or minimum premium income or minimum number of policies, it became rather difficult to take disciplinary action.

8.25.4. We have observed that the services of a Development Officer in the Meerut Division who did not bring any business for 3 years (from 1964-65 to 1966-67) were terminated only in August 1967. We have also been informed that in the year 1966-67 action was taken against only 42 Development Officers on grounds of poor performance.

Their Zonewise distribution is as follows:

Southern Zone	..	11
Western Zone	..	8
Central Zone	..	6
Northern Zone	..	17
Eastern Zone	..	Nil

8.25.5. We have already pointed out that the expectation of business per Development Officer has been Rs. 10 lakhs. When the minimum expectation is Rs. 10 lakhs, one can understand indulgence being shown in marginal cases where an officer secured a business of Rs. 8.8 lakhs, but not in 'flagrant' cases, when the business secured was less than Rs. 5 lakhs. In 1966-67 the number of Development Officers who secured business of less than 5 lakhs was over 2,500. Against this background, the number of cases in which action has been taken is negligible. It also appears that there is no uniform policy that the Zones are following, since no case of disciplinary action has been reported from the Eastern Zone.

8.25.6. In 1967-68, charge sheets were issued against only 201 Development Officers.

8.25.7. We have been told of cases where the Zonal Office removed a Development Officer from the services of the Corporation, but on appeal to the Central Office the Officer was reinstated with a reduction in salary. Laxity or hesitancy in enforcing discipline has created a sense of complacency and nonchalance in the Development officers.

8.26.1. *Suggestions.*—The suggestions made to us during evidence, fall under three groups:—

(1) One view was that it would be difficult to dispense with Development Officers at this stage. One of the Managing Directors felt that Development Officers were necessary for recruiting and training agents. Some other witnesses too were of the view that the business of the Corporation might register a fall if the cadre of Development Officers was abolished.

(2) Some of the witnesses who appeared before us were of the view that it was necessary to stop further recruitment of Development Officers and fix norms for their work, both

with regard to sum assured and expense ratio. After building up a cadre of stable and good agents, the Development Officers may be dispensed with.

(3) A third view was that Development Officers may be replaced by special agents.

(4) Some other witnesses were of the view that the cadre of Development Officers was superfluous, and "the institution of Development Officers might be abolished".

8.26.2. We have observed that during the discussions on the Corporation's budget for the year 1964-65, one member of the Board of the L.I.C. expressed the view that "there should be a progressive reduction in the number of Development Officers with corresponding increase in the number of agents, so that the institution of Development Officers could be abolished and the agents would be the main stay of the development effort." The Chairman of the Corporation agreed that "a time will come in the distant future when we can possibly think of changing the structure of the development organisation, but for the time being, the present system will have to continue.

8.26.3. In the earlier paragraphs of this Chapter, we have already described now the Development Officers have been given liberal terms with regard to pay, allowances and conditions of work, etc. and how in spite of all these, the performance of the Development Officers has been decidedly unsatisfactory from every conceivable angle. It is, therefore, difficult to imagine how it will be possible to improve the situation by continuing the institution of Development Officers.

8.26.4. Special Agents were functioning prior to nationalisation, and on the nationalisation of life insurance, all special and chief agencies were terminated, for various reasons. Special Agents are not whole time employees, and are likely to have their own other activities with insurance as only a side activity. We do not think it will be possible to develop business in rural and interior areas with the help of a Special agency system.

8.26.5. Before nationalisation, the expenses on special agents did not exceed 15 per cent of the first year premium income. Now the expenses on Development Officers are on the average about 25 per cent. In fact, this means that over the period of 12 years after nationalisation, there has been a deterioration in this part of the cost of procuration. What is more significant is that what was a self-regulatory expense in pre-nationalisation days has now become more or less a dead weight on the Corporation. While the figure of 25 per cent is the average, there are many cases where the cost ratio of Development Officers is more than 40 per cent of the first year premium income. It is unthinkable that a Life Insurance organisation can function effectively after paying such a large portion as 40 per cent of the first year's premium to the Development Officers alone.

8.26.6. Our study has convinced us that the Development Officers have failed to fulfil the expectations that the Corporation had from their cadre. They have been treated most generously, and given every conceivable facility and indulgence. Yet their performance has been poor and unsatisfactory. It is, therefore, clear to us that the malady is deep-seated and

calls for a drastic remedy. One such drastic step can be the gradual abolition of the cadre of Development Officers by promoting those of proved competence to the higher grades, terminating the services of those who are chronically and hopelessly above the permissible cost ratio and giving the others the opportunity to prove or improve their competence through a scheme that would automatically adjust emoluments to the permissible ratio in the course of a period of 4 years.

8.26.7. But we have not recommended this course since we are aware that any sudden disturbance in the development organisation is likely to have its repercussions on the new business of the Corporation and even lead to a temporary fall in business. Even so, we should not be deferred from stating what is in the ultimate or long-term interest of the Corporation. Further, one cannot allow things to drift, and hope that the mess will correct itself. Such a policy of drift may only worsen the situation, spread the contagion of indiscipline, make the work of the Corporation uneconomic and unbusinesslike and snap any bridles that may be put on the cost or expense ratio. We have, therefore, recommended that the remuneration of the Development Officers should be restricted to 15 per cent of the First Year Premium income procured through their organisation and their incentive emoluments should be related to the overall performance envisaged in the Blue order, and that Development Officers whose cost ratios continued to be above 15 per cent, should be given the option of having their emoluments reduced to conform to the limit of the 15 per cent ratio or their services being terminated.

Foot Note :

During his evidence before the Committee in the last week of February 1969 the Representative of the Ministry of Finance, Government of India, informed the Committee that the dispute between the National Federation of Insurance Field Workers of India and the L.I.C. which had been referred to the Central Government for a decision "in such manner as the Government consider appropriate and just" was being settled. From the copy of the Government Award received from the Corporation we have seen that the issues involved in the dispute were—

(i) Linking Dearness Allowance to the Cost of Living Index,

(ii) Adhoc increase in D.A.,

(iii) House Rent Allowance and

(iv) Bonus.

The demands for (a) the linking of dearness allowance to the cost of living index and (b) bonus for the year 1964-65, 1965-66, 1966-67 and 1967-68 at the rate of one-and-a-half months' salary have not been accepted. The Development Officers, however have been awarded increased D.A. from 1st February 1967, 1st July, 1967 and 1st December, 1967 i.e., the date on which Class III employees got increases in their D.A. In addition, an Adjustment Allowance on the principles of similar allowances granted to Class I Officers of the Corporation has been allowed to the Development Officers with effect from 1st April, 1967. The request

for House Rent Allowance has also been granted and it has been specified that this allowance would form 15 per cent of the pay of Development Officers, subject to certain minimum.

We have to observe that these additional benefits to the Development Officers of the Corporation have no relation to the business procured by them. A view can be taken that in granting the benefits the Government has not agreed to treat the Development Officers on the same footing as the Class III employees of the Corporation in as much as the demands for linking D.A. to the Cost of Living Index and bonus have not been accepted. The burden of these additional benefits has therefore to be borne by the business that is being procured through the Development Officers in the normal course. In addition, it has to be remembered that these benefits are proposed to be granted to the Development Officers irrespective of their current cost ratios. Consequently in the case of those Development Officers whose cost ratios are for beyond the tolerance limit, the grant of these additional benefits would have a greater impact than in the case of others. It is, therefore, difficult to estimate the overall impact of these benefits on the cost ratios of the Development Officers. These additional benefits may also lead to a mood of non-chalance in the minds of those whose cost ratios have been very high all the time.

It is understood that the additional cost likely to be incurred on account of these benefits is of the order of about Rs. 86 lakhs per annum. Taking the Corporation as a whole, this additional burden would increase the Renewal Expense Ratio by about ½ per cent in 1967-68. If, however, one takes the view that the additional cost should be related only to new business, the impact on the New Business Cost Ratio would be to the extent of 2½ per cent in 1967-68. It may be relevant in this connection to quote the intentions of the Government in this regard.

> "As stated earlier, incentive payments for Development personnel have been in vogue in India and elsewhere. Development Officers of the L.I.C. have also been in receipt of such payments in the past. These payments should be considered as an integral part of the scheme of remuneration to this category of employees. It follows that in the future more emphasis will have to be laid on incentives for improvement of emoluments than on the usual types of allowances".

We understand that negotiations are still going on on the questions of Norms of Work and incentives/disincentives related to the business being procured. We hope that any Scheme that deals with these would make the cost on Development Officers self-adjusting and linked to the business procured by them from time to time.

CHAPTER IX

Agents

9.1.1. The total expenses of management of the Life Insurance Corporation of India during the year 1967-68 amount to Rs. 58·62 crores. Of these, the commission payments to insurance agents were Rs. 17·90 crores, working out to more than 30 per cent of the total expenses incurred during the year. It can thus be seen that in magnitude and importance, the commission payments to insurance agents stand next only to the payments made to the salaried staff of the Corporation. The figures in the following table will show that this has been a regular feature of the Corporation's expenses :—

TABLE 9·1

Year	First Year Commission			Renewal Commission		
	Amount (in lakhs of Rs.)	Col. (2) as a percentage of F.Y.P.*	Col. (2) as a percentage of total Expenses of Management	Amount (in lakhs of Rs.)	Col. (5) as a percentage of Renewal Premium	Col. (5) as a percentage of total expenses of Management
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1958 . . .	406·04	29·65	19·00	244·83	4·16	11·47
1959 . . .	521·43	29·49	21·40	288·73	4·34	11·85
1960 . . .	585·38	29·16	21·09	337·33	4·44	12·15
1961 . . .	679·45	29·45	21·50	411·75	4·65	13·03
1962-63 . .	883·26	28·78	19·94	520·73	4·38	11·75
1963-64 . .	818·96	28·37	20·32	522·32	4·50	12·96
1964-65 . .	862·56	29·33	19·29	574·84	4·39	12·86
1965-66 . .	909·92	29·02	18·87	641·89	4·39	12·96
1966-67 . .	940·50	29·35	17·32	730·05	4·49	13·36
1967-68 . .	1001·42	29·33	17·08	788·71	4·47	13·45

*Excluding single premium and consideration for annuities.

9.1.2. Since these commission payments account for more than 30 per cent of the total expenses incurred during a year, one has, in any analysis of expenses, to examine in detail the strength and quality of the agents, the services rendered by them in return for these payments, the adequacy or otherwise of the levels and modes of payment of commission etc. We have, therefore, devoted this chapter to a discussion of these questions.

Strength of the Agency Force:

9.2.1. The following table gives an idea of the growth of the Agency force of the Corporation during the last seven years:—

TABLE 9·2

Year	No. of agents at the begining of the year	No. recruited during the year	No. who ceased to be agents during the year		No. of agents at the end of the year
			Due to termination of Agencies	Due to other causes	
1961	1,39,821	59,656	42,929	658	1,55,890
1962-63	1,55,890	87,132	69,195	2,294	1,71,533
1963-64	1,71,533	62,872	58,942	1,462	1,74,071
1964-65	1,74,001	50,465	53,159	926	1,70,381
1965-66	1,70,381	45,851	44,979	673	1,70,580
1966-67	1,70,580	40,782	44,168	671	1,66,523
1967-68	1,66,523	43,182	43,560	590	1,65,555

9.2.2. We are informed that immediately before the Corporation came into being on 31st August, 1956 there were 2,18,970 insurance agents in India, representing the various insurance companies working in the pre-nationalisation days. We are further informed that 1,89,107 out of these agents opted to continue as agents of the—Corporation.

Quality of Agency Force:

9.3.1. The quality of an agency force can be—evaluated by (1) examining the new business production of agents grouped in some manner and/or (2) studying the persistency record of the business brought in by the Agents.

9.3.2. In examining the new business-record, we must remember that the Corporation has been classifying its agency froce into (a) active agents and (b) inactive agents. Active agents are those who bring in at least one

new policy during the year under review and inactive agents are those who have failed to secure even one new policy. The following table gives the number of the active and inactive agents of the Corporation from 1961 :—

TABLE 9·3

Year	No. of agents on rolls at the end of the year in Col. (1)	No. out of Col. (2) who ard 'active'	$\frac{(3)}{(2)} \times 100$	No. out of Col. (2) who are 'inactive'	$\frac{(5)}{(2)} \times 100$
(1)	(2)	(3)	(4)	(5)	(6)
			%		%
1961 . .	1,55,890	1,25,033	80·2	30,857	19·8
1962-63 . .	1,71,533	1,40,926	82·2	30,607	17·8
1963-64 . .	1,74,001	1,43,209	82·3	30,792	17·7
1964-65 . .	1,70,381	1,46,207	85·8	24,174	14·2
1965-66 . .	1,70,580	1,48,026	86·8	22,554	13·2
1966-67 . .	1,66,523	1,44,154	86·6	22,369	13·4
1967-68 . .	1,65,555	1,44,304	87·2	21,251	12·8

9.3.3. We must state here that, in the course of his evidence before us, the Managing Director stated that the statistics that has been quoted in this table refer to agents who have not secured even one policy during an accounting year as inactive agents, and argued that since the accounting year was different from the agency year, some of those whom the statistics describe as inactive may have secured one or more policies in their agency years.

9.3.4. We do not think it is necessary to expatiate on the futility of maintaining on the rolls of the Corporation an agent who could not secure a single new policy during a whole year, whether it be the accounting year or the agency year. The figures in the table indicate that 20 per cent of the total agency force consisted of such unproductive agents as on 31st December, 1961, and their number has come down to about 13 per cent of the agency force on 31st March, 1968. The downward trend noticeable in the number of unproductive agents, and their percentage to the total agency force, is, no doubt, a welcome feature. Yet, since in absolute numbers the size of inactive agents is quite large, it is clear that tightening up of the measures for recruitment and retention of agents will reduce or remove the obvious wastage.

9.3.5. According to the present classification in the Corporation, there are two groups among the active agents, viz., those who are 'qualified' and those who are—'not qualified'. An agent is described as a 'qualified agent'

if he secures during a year policies on six different lives for an aggregate Sum Assured of Rs. 40,000 in cities, or towns with a population of one lakh or over according to the 1961 Census (Rs. 20,000 in other areas). The following table indicates the position of the 'qualified' and 'active but not qualified' agents for the year 1966-67.

TABLE 9·4

Period 1-4-1966 *to* 31-3-1967.

Zones	Total No. of agents who are qualified	$\frac{(2)}{(6)} \times 100$	Active agents but not qualified	$\frac{(4)}{(6)} \times 100$	(2)—(4) Total No. of active agents
(1)	(2)	(3)	(4)	(5)	(6)
		%		%	
Northern . .	7,230	38·0	11,780	62·0	19,010
Central . . .	8,204	42·3	11,174	57·7	19,378
Eastern . . .	15,304	46·0	17,978	54·7	33,282
Southern . .	18,471	41·8	25,684	58·2	44,155
Western . .	12,751	39·8	19,275	60·2	32,026
TOTAL .	61,960	41·9	85,891	58·1	1,47,851

9.3.6. These figures indicate that only 42 per cent of the active agents of the Corporation come under the qualified category. The experience of the individual Zones does not indicate any large variations from the average for the Corporation, and hence does not seem to call for any special comment.

9.3.7. The quality of agents can also be inferred from the quantity of business secured by them. A zonewise statement giving the number of agents who completed New Business in different slabs in urban and rural sectors for 1967-68 is given Appendix 15. The figures in the Appendix show that only 35 per cent of urban qualified agents and 24 per cent of rural qualified agents secured a business of more than Rs. 1,00,000 sum assured; expressed as a percentage of the total number of agents, this figure comes to 11. Only 2 per cent of all agents secured a business of more than Rs. 3,00,000 sum assured.

9.3.8. We should refer here to the argument that since an agent is remunerated on a commission basis the cost on him adjusts itself with the premiums that he brings in. We must point out that there is an obvious fallacy in this argument. Under the system now obtaining in the Corporation, agents are appointed by the Branch Managers on the recommendation of the Development Officers. There are certain preliminaries, like scrutiny of his application form, verifying his educational qualifications,

obtaining relaxations from the competent authority for non-fulfilment of educational qualifications, verification of age etc. that have to be gone through before a person is appointed as an Agent. After the scrutiny of the application form is over, the Branch Manager interviews the applicant. The fact that the Development Officer, the Branch Manager and the administrative staff of the branch office have to devote considerable time to the processes related to the appointment of an Agent is not generally well appreciated. In addition to the time spent on these internal procedures, the Branch Officer also helps the prospective agent to obtain a licence from thse Controller of Insurance to act as an insurance agent. This involves scrutiny of the licence application form furnishing the agent with requisite Government of India Insurance Stamps that have to be affixed on the licence application form, despatching the applications to the Controller of Insurance and, on receipt of the licence, passing it on to the Agent etc. After a person is appointed as an agent of the Corporation he is given training by the Development Officer and the A.B.M.(D). The additional administrative work that the Branch does for the Agents includes :—

(1) The maintenance of Agents' Code No. and Lincence application register at both Branch Offices and Divisional Offices.

(2) Maintenance of a centerwise register of agents at B.Os.

(3) Maintenance of a Register of Agents at B.Os.,

(4) Maintenance of Agents' Index Cards at both B.Os. and D.Os.

(5) Maintenance of Agents' correspondence dockets at both B.Os. and D.Os.

(6) Maintenance of Agency Bills in dockets in the Commission Departments at B.Os. and D.Os.

(7) Maintenance of Agents' accounts in the commission Dept. of the D.Os.,

(8) Filing of income-tax returns of agents whose commission exceeds Rs. 400 in a year.

(9) Helping the agent to renew his licence.

9.3.9. When one looks at the quantum of work involved in maintaining an agent on the rolls of the Corporation one can easily see that the cost incurred on him does not consist merely of the commission payment but also of the expenses on his training and administrative requirements. It is, therefore, obvious that the Corporation should exercise the utmost care and discretion in recruiting and maintaining the agents of the Corporation.

9.3.10. So far as the business-persistency-record of the Agents is concerned, it is reflected in the high lapse experience of the Corporation; the overall lapse rate was 7.0 per cent in 1967-68 and the cumulative lapse rate for mean durations 0, 1, 2 and 3 was 39.6 per cent. We shall discuss this subject in detail in a separate chapter. One of the possible reasons for heavy lapses is the lack of contact with the policyholder

after the initial canvassing has resulted in the issue of the policy, and it appears to us that one of the reasons for this lack of contact is the heavy turnover in the agency force.

9.3.11. The Corporation made a sample study from the data available from 22 Divisional Offices covering the agents recruited during the period 1962-63 to 1964-65, and found that out of 100 agents recruited, only 55 remains in the profession at the end of the first year following the year of recruitment, and 38 remained at the end of the second year as may be seen from the following table:

TABLE 9·5

Year of Recruitment	Proportion surviving at the end of				
	1st year following year of Recruitment	2nd year following year of Recruitment	3rd year following year of Recruitment	4th year following year of Recruitment	5th year following year of Recruitment
1960	..	..	30%	23%	18%
1961	..	40%	27%	22%	..
1962-63 . .	50%	36%	26%	..	..
1963-64 . .	55%	39%	..	..	..
1964-65 . .	62%	..	..	..	..

9.3.12. Taking the present agency froce one might be tempted to say that the larger the agency force the larger will be the business secured. But it might be interesting to recall what the Superintendent of Insurance said in the Indian Insurance Year Book 1945 :—

> "It is an illusion to think that the larger the number of agents the larger would be the business secured. Experience has proved otherwise. When a larger number than necessary attends to any type of work the output suffers both in quality and quantity. Over-crowding, particularly in the professions—the agents can certainly be classed as belonging to a profession—would also lower moral standards.
>
> The history of Life Insurance in the U.S.A., the country in which is found the maximum insurance-mindedness of all the peoples of the world, clearly shows that so long as the agency force was too large and untrained life insurance did not make much headway in that country. This is revealed in a volume of absorbing interest to those associated with life Insurance published in commeoration of the completion of 75 years of service in the cause of Life Insurance by the Metropolitan Insurance Company of America."

9.3.13. In 1950, the President of the Indian Life Assurance Offices' Association, Shri N. V. Nayudu, (at present one of the Managing Directors of the Corporation) seems to have expressed the view that the agency force that existed at the time was too large for the volume of business that had been sold. Even as recently as in September, 1965, one Zonal Manager of the Corporation seems to have said that "the Zone had far too many agents and this was in his opinion a major reason for many of them not doing any work". He seems to have added that "a plethora of agencies was a handicap towards a better and stable agency organisation and the time had come when some cadre strength of agents might be fixed for each Branch, depending upon the business potential and targets of the branch."

9.3.14. These observations indicate that even in the private sector, prior to nationalisation, when there was keen competition amongst insurers, the Agency force of about two lakhs was considered to be too large. Viewed in this light, the Corporation, with its monopoly to transact life assurance business in India, has, *prima facie,* a very large agency force, as has rightly been pointed out by the Zonal Manager whom we have referred to in the earlier paragraph. The matter therefore requires a thorough review.

9.3.15. In the Memorandum that the Association of L.I.C. Agents, Bombay, submitted to us, the Association has stated that "most of the Agents are purely contactmen or "Spotters" and for effectively *reducing the expenses, there is no other alternative but to create a cadre of professional Agents."* Several other witness who appeared before the—Committee expressed similar views. An experienced agent of the L.I.C. who gave evidence before the—Committee in this personal capacity suggested that the number of agents in the L.I.C. should be reduced, and a cadre of career agents should be built-up. All these indicate that the present Agency force of the—Corporation is large, and needs a thorough review and scrutiny with a view to building up a stable cadre of real agents and weeding out the transient and the inefficient.

9.4.1. *Recruitment.*—The table 9.2 shows that the Corporation has been recruiting large numbers of agents every year. This recruitment has been more or less matched by the number of terminations of Agency contracts. Just as new recruitments involve a good deal or administrative work, terminations too entail considerable work since subsequent requests for extension and review, *i.e.*—after the appointments are actually terminated, have also to be dealt with.

9.4.2. It appears to us that one of the causes that is leading to such a heavy turnover of agents is indiscriminate recruitment of agents. It may be necessary to mention here that recruitment of agents is one of the duties of a Development Officer, and the results of his selection are to be considered as a reflection on his recruitment policy. The Association of L.I.C. Agents, Bombay, has referred to this question, and said

> "Presently recruitment of Agents is done by the Development Officers. Mostly the Development personnel are interested in having a Benami Agency for themselves and in addition are satisfied with the appointment of as many contactmen or

> spotters as they can, because of their controlling position they have a vested interest in these Agents. These Agents are recruited *at random* and relying on the law of average, they are satisfied if a few out of them turn out able and stable".

To avoid a large and disproportionate turnover in the agency force and to avoid consequent wastage we recommend that the Corporation should fix a limit to the total number of agents it wants to have at any one branch at any one time and regulate its recruitment of agents on the basis of this number.

9.5.1. *Demarcated Areas.*—It has also to be borne in mind that if the message of insurance is to be carried to every part of the country, it is necessary to have agents throughout the country.

9.5.2. At present agents are attached to various Branches. In some cities or town groups there are a number of Branches. All the Branches in the same city or town group have a common territorial jurisdiction. Other Branches have an exclusive territorial jurisdiction.

9.5.3. However, agents, though attached to a particular Branch, are at present allowed to do business anywhere in the country. This has led to a situation in which agents, while on visits to other places—in some cases remote—from their usual places of residence—procure business from places they visit. It is clear that such business—cannot receive adequate after-sale service from the agent. This in turn affects the conservation of the business. *We, therefore, recommend that the practice of visiting agents* i.e., *agents attached to one Branch doing business at places that they are temporarily visiting may be discontinued. We suggest that the following alternate arrangements may be made:—*

Where a Branch has an exclusive territorial jurisdiction, its total area may be divided into a certain number of districts or countries. The area of each demarcated district or country should be so determined that the estimate of its insurance potential assures enough work for 3 agents, and only 3 agents should be appointed within such a demarcated area. The agents residing within such a demarcated area should work only within that area. Other agents attached to the Branch will work within the remaining undemarcated area of the Branch. No agent attached to any one Branch with an exclusive territorial jurisdiction may work outside this jurisdiction. Agents attached to Branches having a common area with other Branches should not work outside the total common area which forms the territorial jurisdiction of these Branches.

9.6.1. *Minimum Business Guarantee.*—The Agency Appointment letter tells us that the minimum business criterion for an agent is a certain level of sum assured under life insurance policies or a certain level of general insurance premium income or a combination of both. For the purpose of this criterion, a general insurance premium of Rs. 120/- is deemed equivalent to Rs. 1,000 life sum assured. Equating a particular level of general insurance business to a certain level of life insurance business is always open to question, and any decision in this

regard may be described as arbitrary. Moreover, a combined criterion like the one that is applied today does not help the growth of a stable agency force for the life side. A stable force can be built up only when the agent's performance under each section is judged individually, and appropriate action, like termination, etc. taken to deal with failure in each of the sections. *We, therefore, recommend that the minimum new business guarantee should be exclusively for life business and it should not be relaxed on the ground of good performance in general insurance business. If an agent is appointed for both types of business, life and general, his contract for life insurance business should stand terminated if the minimum new business requirements for life business is not fulfilled, irrespective of the magnitude of his general insurance business*

9.6.2. The present classification of agents into rural and urban is defective. An agent working in a place with a population of 1,00,000 and and over is called urban, and other agents are called rural. Such a classification ignores the Census definition of rural and urban places, and is therefore incorrect. In the absence of a correct classification and data based on it, it is difficult to know how many agents are working in rural areas and how many are working in urban areas. *We recommend that agents should be classified as 'rural' or 'urban' according to their usual places of residence. For deciding the rural or urban character of a place the definition used in the latest Census should be adopted. We further recommend that data relating to agents should be collected separately for rural and urban agents.*

9.6.3. Clause 1 of the Agency Appointment letter states the minimum business requirement as follows:—

(*a*) If you are working in a city or town group with a population of one lakh or over according to 1961 Census.	Rs. 40,000 sum assured under life insurance policies on six different lives, or general insurance premium income of Rs. 4,800, or combination of life and general insurance business deemed equivalent.
(*b*) If you are working in any othe place.	Rs. 20,000 sum assured under life insurance policies on six different lives, or general insurance premium income of R. 2,400 or combination of life and general insurance business deemed equivalent.

9.6.4. This method of differentiation between areas is obviously based on the belief that an agent working in a city or town group can secure twice the quantum of business that an agent working in other areas can procure because the potentials of the two areas vary considerably. It is possible that the area of operations of an agent does not cover either an exclusively urban area or an exclusively rural area, for instance, a demarcated area allocated (as described in paragraph 9.5.3. of this Chapter) to an agent may contain one or two urban places and a number of rual places. In cases, the business secured by the agent would be partly urban and partly rural. The present criteria mentioned in the agency appointment letter do not take this fact into consideration.

9.6.5. The present minimum sum assured was prescribed as long ago as in 1956, when the average sum assured was Rs. 3,425/- compared with the present average sum assured of Rs. 5,869/- (1967-68—business in

India). The average business production of an agent has also gone up in the meantime. With the present average sum assured of Rs. 6,565/- in urban areas, the present limit of Rs. 40,000/- would mean that an agent has to procure only 6 policies in the year or one policy in 2 months, which, by any standard must be considered a low figure. The present stipulation that the agent should have secured policies on six different lives is also on the low side. *We, therefore, recommend that the minimum business of an agent should be fixed at policies on 12 different lives in any agency year, assuring a sum of Rs. 60,000/- for urban business and Rs. 30,000 for rural business. During the course of the next 4 years the minimum limit may be stepped up to Rs. 1 lakh for urban business and Rs. 50,000/- for rural business by stages. Where the agent's business is partly rural and partly urban, the total sum assured under the urban business together with twice that under rural business should be at least equal to Rs. 60,000/-.*

9.6.6. Clause 2 of the Agency Appointment letter says that if the agent fails to complete the requisite volume of business specified in clause 1 of the letter in any agency year, the agency will stand automatically terminated from the beginning of the following agency year. This termination clause will not, however, apply in cases where the agent could procure in a city or a town group, with a population of 1 lakh and over, an aggregate business of Rs. 10,000/- life sum assured or Rs. 1,200/- general insurance premium or a combination of both (with half of the above minimum in other areas). While this relaxation may be desirable in very exceptional cases depending on merit, a general relaxation of this type, is likely to lead to an undesirable ebb and flow in the Corporation's new business record. Moreover, for one who aspires to be a career agent, it should not prove difficult to secure every year a new business of the order of the prescribed minimum. *We, therefore, recommend that the minimum business guarantee for Sum Assured should be insisted upon in every agency year. The minimum for the number of lives should be insisted upon, on an average every two years. If the agent fails to satisfy the above new business criteria in any year, his appointment should be terminated, and terminated agents should not be reappointed.*

9.6.7. Any person recruited as an agent requires some time to acquaint himself with the intricacies of the job of selling the right type of policies of the proper amount to the right man. Some experience and some guidance from the Development Officer or A.B.M.(D) are both necessary for this. It will, therefore, be difficult for a newly recruited agent to fulfil the minimum business criterion till he acquires adequate skill, knowledge and experience. This may take about a year. *We, therefore, recommend that during the first agency year of an agent the criterion for minimum new business procuration need not be enforced.*

9.7.1. *Examination.*—According to the present practice, the newly recruited agent is trained by the Development Officer. There is an A.B.M.(D) at each Divisional Headquarters who goes on tour to the various Branch headquarters and gives training to agents who find it convenient to attend the training classes. But the training that the A.B.M.(D) gives at these centres lasts only for a short period of 10 to 12 days. We

understand that up to 31st August, 1968 the number of agents trained in this manner was only 37,848. Lack of training is perhaps one of the reasons that have contributed to the failure of many agents. We may point out here that Sec. 64 I of the Insurance Act envisages that licence to work as agents would be granted only to those who have passed examinations contemplated under that section. Whenever in the private sector of the pre-nationalisation days, restrictions were envisaged, on the qualifications of the agency force, suitable restrictions become all the more necessary in the case of a nationalised and monopolistic institution like the L.I.C. It may be interesting to point out that even in the U.S.A. more and more agents are obtaining diplomas like the one of the Chartered Life Underwriter. Training and the acquisition of systematic knowledge through examination gives the necessary background to become a good insurance agent. Success at an examination also improves the status and standing of an agent. *We, therefore, recommend that agents should be required to pass an examination within 5 years of their appointment. If any agent does not pass the examination within this time, his appointment should be terminated, and such terminated agents should not be* reappointed.

9.7.2. The question whether this examination should be conducted by the Corporation itself or by some educational institution like the Federation of Insurance Institutes is a matter of detail which could be settled by the Corporation in consultation with the Federation. The languages in which the candidate can answer the test and the periodicity of the examinations may also be settled between the Corporation and the Federation. *We would, however, suggest that every agent should have an opportunity to pass the examination in the language of his choice, and consequently efforts should be made to conduct the examination in English, Hindi or any of the regional languages.*

9.8. *Existing Agents.*—Though the enhanced minimum business guarantee and the passing of the examination and other conditions for the continuation of the appointment of agency apply to new agents, it is necessary that the existing agents should also be brought in line with new agents. It is true that the existing agents have been appointed quite some time ago, and have been working as agents; it would therefore be hard if new and stringent conditions are imposed on them. However, the Corporation has the right to alter the conditions of appointment at any time by due intimation as provided in clause 17 of the Appointment letter. Taking all these factors into consideration we recommend the following measures:

(i) *The appointment of agents who have not secured even one policy during their latest full agency year should be terminated forthwith, and such agents should not be reappointed except under exceptional circumstances.*

(ii) *Existing agents who have secured during the last 3 agency years, on an average, a yearly new business of Rs. 75,000/- (Rs. 40,000/- in the case of agents working in areas with population of less than 1 lakh) may be exempted from passing the examination.*

(iii) *The remaining agents, who according to the present classification of the Corporation are active, and those who have been appointed prior to 31st March, 1966 may be given a period of 3 agency years from now to satisfy the minimum new business requirement prescribed for the new agents. If during these 3 agency years they satisfy the requirement on an average they may be exempted from passing the examination.*

(iv) *All other agents should be treated as new recruits.*

9.9.1. *Benami Agents.*—Several witnesses who appeared before us have referred to the existence of Benami Agents in the Life Insurance Corporation. Some have suggested that the large number of lady agents is indicative of Benami Agents. For purposes of ready reference we are giving below the sex-wise distribution of the Agency force of each Division of the Corporation as at 31st March, 1968:

TABLE 9.6.

Division/Zone	No. of Agents	
	Male	Female
Northern Zone :		
Delhi	3,738	2,870
Jullundur	3,542	1,561
Chandigarh	3,426	1,313
Ajmer	3,657	2,292
TOTAL	14,363	8,036
Central Zone :		
Lucknow	2,924	479
Kanpur	2,287	290
Meerut	2,435	474
Agra	2,407	451
Varanasi	2,633	262
Indore	2,490	867
Jabalpur	1,893	792
TOTAL	17,069	3,615

Division/Zone	No. of Agents	
	Male	Female
Eastern Zone :		
Calcutta	12,464	3,231
Jalpaiguri	1,938	582
Gauhati	3,823	1,894
Asansol	2,931	686
Patna	2,623	706
Muzaffarpur	2,646	427
Jamshedpur	2,386	1,064
Cuttuck	1,887	500
TOTAL	30,698	9,090
Southern Zone :		
Bangalore	5,086	1,145
Udipi	5,037	502
Hyderabad	4,265	491
Machilipatnam	4,586	816
Madras	6,413	1,759,
Thanjavur	25,74	426
Madurai	2,825	582
Coimbatore	5,622	791
Trivandrum	4,771	757
TOTAL	41,279	7,269
Western Zone :		
Rajkot	1,979	324
Ahmedabad	4,508	693
Surat	1,999	488
Bombay	9,294	4,336
Satara	2,146	670
Poona	2,076	853
Nasik	1,509	465
Nagpur	2,246	550
TOTAL	25,757	8,379
TOTAL IN INDIA	1,29,166	36,389

9.9.2. These figures show that the number of lady agents works out to 22 per cent of the total agency force, for the Corporation taken as a whole. We understand that even in an advanced country like the U.S.A., ladies form only about 5 per cent of the agency force. Viewed in this context, it would appear *prima facie,* that the larger representation of ladies in the Agency force of the Corporation is indicative of Benami appointments. We would however, emphasize that ladies cannot be disqualified from working as insurance agents, because of their sex. In fact, every encouragement and equal opportunity should be given to them. The suggestions we have made about examinations, etc., might, we hope, prove an effective deterrent to so called Benami appointments.

9.10.1. *Remuneration*: In return for the services, rendered by the Agent, the Corporation remunerates him on a commission basis. The schedule of commission rates is given in the agency appointment letter which is appended to this report as Appendix 16. The Appendix shows that the rates of commision in respect of standard tables for a premium paying period of 15 years and over are as under:—

On First Year's Premium	..	25%
On 2nd Year's Premium	..	7½%
On 3rd Year's Premium	..	7½%
On 4th Year's and subsequent Year's Premium		5%

9.10.2. In respect of policies with a premium paying period less than 15 years, slightly lower rates of commission are payable. This approach is justifiable on the ground that the premium payable for policies with shorter premium paying terms, would be larger and consequently a lower percentage of these premiums would as adequately remunerate the agent as a higher percentage under the policies for the "standard terms". The rate of commission payable on Single Premium Policies is 2 per cent.

9.10.3. An agent is eligible for a new life bonus commission if the first year's commission earned during an agency year (excluding commission on Single Premiums and commission under Deferred Annuity and Pure Endowment Policies) exceeds Rs. 400; the new life bonus varies from 5th to 10 per cent of the premiums.

9.10.4. The commission is payable to the Agent throughout the duration of the contract, as and when the concerned premiums are received; the commission payments are not restricted to any specified period.

9.10.5. It may be useful here to remind ourselves of the commission structure prevalent in foreign countries like the U.K. and the U.S.A.

Position in the U.K.:

9.10.6. In the U.K. the commission structure for ordinary life assurance falls under two distinct categories, viz., permanent contract (like Endowment and Whole Life Assurance) and Term Assurance contracts (with level or decreasing sums assured).

9.10.7. For permanent contracts, the First Year Commission is a percentage of the Sum Assured, and not of the premiums as in India or North America. The initial commission normally goes upto 2 per cent of the Sum Assured. The renewal commission under these contracts is 2½ per cent of each annual renewal premium.

9.10.8. Under temporary assurances with level sums assured typical commission rates are 10 per cent of the First Year's premium, 2½ per cent on renewal premium.

Position in the U.S.A.:

9.10.9. The companies in the U.S.A. generally remunerate their soliciting agents with a high first year commission amounting generally to 55 per cent for Whole Life Policies where premiums are payable throughout life, and to 50 per cent for Whole Life Policies with premium limited to 20 years. Under Endowment Assurances for 20 years terms the rate of commission is generally 35 per cent of the first year's premiums, the lower percentage being probably due to the larger premium payable under Endowment Policies. Under all these contracts the renewal commission is restricted to a period of 9 years, or roughly 50 per cent of the premium paying term, the rate of renewal commission being 5 per cent to 7½ per cent varying from office to office. The general pattern that emerges from a sutdy of these figures is that, in all, an agent is paid commission amounting to something short of one year's premium spread over a maximum period of ten years. In cases where the commission payments stop with the 10th year of assurance, a service fee becomes payable to the Agent for the services rendered by him. In cases where the renewal commission for the stop with the tenth year of assurance, the renewal commission for the 11th year and subsequent premiums is at a reduced rate of 2 per cent of the premiums.

9.10.10. We should now recount the methods that have been followed in our country to remunerate agents. The maximum rates of commission under the Insurance Act 1938 were 40 per cent of the first year premium and 5 per cent of renewal premium. The rates of commission were subsequently revised by the Insurance Amendment Act, 1950, and the first year commission was reduced to 35 per cent and the renewal commission for the 2nd and 3rd years was raised to 7½ per cent.

9.10.11. The Oriental Government Security Life Insurance Company Ltd., prior to nationalisation, paid a first year commission of 25 per cent on standard plans and terms, and in addition a new life bonus commission of 10 per cent; the new life bonus commission was payable only to agents who secured a minimum Sums Assured of Rs. 25,000 with full first year's premium paid.

9.10.12. From a comparison of the various rates of commission it would appear that the maximum rate of commission of 35 per cent for First Year commission permitted under the Insurance Act 1938 is split up into two parts, *viz.*, (1) a basic rate of commission available to all agents and (2) a new life bonus for agents satisfying certain prescribed conditions.

9.10.13. We must here refer to the question of rebating. Almost all the witnesses who appeared before us said that rebating is widely prevalent in our country. As the existence of this malpractice has been brought to our notice, it has become necessary for us to consider the matter further and recommended a suitable remedy that might curb this malpractice effectively. We have been told that this evil of rebating leads to many policies being discontinued after 2 or 3 years of issue. It also stultifies the growth of a really good and capable cadre of agents for the Corporation.

9.10.14. Considering the statements made before us by several witnesses, it appears to us that the high rate of First Year Commission of 25 per cent might be one of the factors that induce agents to part with a major portion of the First Year Commission, in the hope of earning a secure and large renewal commission. A question which would, therefore, naturally suggest itself to anyone is whether reducing the first year commission to a lower level and paying the amount thus reduced in subsequent years would be an effective way of curbing the practice of granting and accepting rebates. The Estimates Committee (1960-61) examined this question and suggested that the feasibility of spreading the First Year's Commission to agents over a period of 3 to 4 years might be examined. In reply, the Government stated that the suggestion had been examined earlier by the Corporation and found to be impraticable since it was felt that it would have an adverse effect on the recruitment of Agent, and consequently, on the new business of the Corporation.

9.10.15. Later on, the suggestion appears to have been examined further at the Divisional Managers' Conference held in 1962. The following is an extract from the Minutes of the Conference :—

> "At the level of the agent the Committee is of the view that increase in the rate of Commission for 2nd and 3rd years with corresponding reduction in the Commission for the first year may assist conservation of business on account of the real increase in the agent's income. The Committee recommends the following scheme :—
>
> First Year Commission 15 per cent plus 10 per cent bonus on a graded scale.
>
> Second Year Commission 15 per cent.
>
> Third Year Commission 10 per cent.
>
> The total amount of commission for the first 3 years should thus come to 40 per cent plus 10 per cent Bonus Commission, i.e., the same as at present. This change would not therefore involve any alteration of the expense basis in premium calculation."

The Corporation has, however, informed us that the suggestion was not found practicable.

9.10.16. The question appears to have cropped up again at the All India Divisional Managers' Conference held in July, 1968. It appears that "there was general agreement that the firsty ear commission to agents

be reduced from 25 per cent to 20 per cent (without affecting the bonus commission), and the second and the third year commission increased from $7\frac{1}{2}$ per cent to 10 per cent." The Corporation has stated that since the renewal commission could be increased from $7\frac{1}{2}$ per cent to 10 per cent for the 2nd and 3rd year premiums only if the Insurance Act 1958 was amended, it would consider the matter further after our recommendations in this regard are made known.

9.10.17. We took up this question with the Life Insurance Agents' Federation of India who appeared before us. In the Aide-Memone that they submitted to us they have stated that "reduction in first year's commission rate would mean loss of income to the new whole-time agents to such an extent that they will find it extremely unremunerative to continue to stay in the profession, and as a result, only those who want to supplement their income would remain in the field." They have also stated that "if rebating has to be combated, the demand for rebating by the buyers has to be resisted. It is, therefore, essential that more rebate-resisting type of agents should be employed by the L.I.C. And unless more whole-time agents are employed, unless benami agents are eliminated, this menace of rebating would remain in the market irrespective of the rate and the quantum of agency commission." They have gone on to say that "Our Federation, therefore, shall oppose any move to reduce the first year's rate of commission on the ground of combating the incidence of rebating."

9.10.18. We have referred at length to the need to build up a stable agency force. In order that this stable agency force thrives on an adequate income without being subjected to the evil effects of rebating it is essential that some way is found to eradicate the evil.

9.10.19. At present, an agent gets as first year commission, a maximum of 35 per cent of the first year's premium income, which is made up of 25 per cent basic commission, and 10 per cent new life bonus commission. The only criterion for receiving the new life bonus at present is that the agent should have earned a certain first year (basic) commission. This arrangement gives importance only to the volume of business done by the agent, and completely ignores the quality of business.

9.10.20. It must be pointed out here that the lapse experience of the Corporation has not been good, and the recent trend is for the lapse experience of certain Divisions to deteriorate. To improve this situation it is necessary to readjust the total first year commission paid to the agent between the basic commission and the new life bonus commission as also to take the quality of business as one of the criteria of eligibility for new life bonus.

9.10.21. The Life Insurance Agents' Association of Gujarat has expressed the same view:

> "Agents and Development Officers should be specifically made to understand that the policies which they are booking must remain in full force at least for the period which they acquire surrender/paid-up value."

9.10.22. Recently the commission rates for General Insurance have been reduced considerably. It therefore appears reasonable to us that the commission rates for Life Insurance business are also adjusted downwards. *We, therefore, recommend that with a view to combating rebating, reducing lapses and helping in the creation of a stable agency force, the basic rate of first year commission be reduced from the present 25 per cent to 20 per cent. This percentage may apply to policies of standard plans and standard terms. The standard premium paying period may be fixed at 20 years instead of the present 15 years. Suitable percentages for non-standard plans and terms may be fixed by the Corporation.*

New life bonus:

9.10.23. We however do not want this change to affect the remuneration that good agents have been receiving. This can be ensured by increasing the rates of new life bonus commission, so that efficient agents doing quality business will not suffer any reduction in their total emoluments (i.e., basic commission and new life bonus taken together). To ensure the quality of business, the increase in the total premium income of the agent may be taken as the criterion of eligibility for the new life bonus (instead of first year commission as at present). *Thus the rates of new life bonus may be fixed as follows :*

If there is a net-increase less than Rs. 6,000 but more than Rs. 1,600 in the total premium of the agent during the year (after allowing credit in this computation for premiums ceasing by death, maturity and cessation of premiums under limited payment policies) 25 per cent first year commission, excluding that on Single Premium, Deferred Annuity and Pure Endowment Policies, will be paid as a new business bonus. For each excess of Rs. 1,000 above Rs. 5,000 in this net increase, this 25 per cent will be increased by an extra 5 per cent upto a maximum of 75 per cent. This scheme of rates of First Year Commission and New Business Bonus will be applicable to policies issued on or after the new scheme is put into effect.

9.10.24. Agents who do quality business and whose lapse-ratio is negligible, will earn new life bonus commission from their second agency year onwards. Considering such agents, and assuming that the distribution of the agents' business by mode of payment and month of commencement does not change much in two consecutive years, it will be seen that an agent who does a business of more than Rs. 3 lakhs sum assured (when the increase in premium income will be more than Rs. 15,000 of good quality, will be able to earn a commission of 35 per cent (20 per cent basic Commission + 15 per cent new life bonus). Agents doing business between Rs. 2 lakhs and Rs. 2.2 lakhs will get a commission of 30 per cent, while those who secure a business above Rs. 32,000 and upto Rs. 1.2 lakhs will be eligible for a commission of 25 per cent.

9.10.25. It may also be mentioned here that we have recommended below that the renewal commission for the second year should be paid at the enhanced rate of 10 per cent instead of the present 7½ per cent.

9.10.26. It will thus be seen that though the scheme that we have suggested would slightly reduce the basic rate of commission, it does not affect the remuneration of good and efficient agents. On the other hand, it will

have the effect of reducing rebating and inducing every agent to devote more attention to quality business. This will also help in building up a stable agency force.

9.11.1. *Renewal Commission*: Turning now to the renewal commission payable to the Agents, it is evident that this becomes payable only when the renewal premium is received. Clause 15 of the Agency Appointment letter says that, in addition to securing new business, the agent will be expected to see that the policies introduced by him are kept in force by the payment of premiums on due dates. The "Manual for Agents" contains a separate section on "After-Sales-Service". The following passages appearing in the Manual deserve special attention :

> "The Agent's responsibilities to the policy-holder are not over with the closing of the sale. It is essential that the sale is followed up with good service and regular contact with the policyholder.
>
> Life Insurance Salesmen, unlike other salesmen, receive renewal commission on their past business. Renewal commission is not a gift for service already rendered. Old policies need to be serviced from year to year, and renewal commission is paid for the continued service the Life Insurance Salesman is expected to render to the policyholder."

9.11.2. Yet, the Life Insurance Agents' Federation of India has taken quite a different view in the Aide-Memoire that they submitted to our Committee. They have held that there is no obligation on the Agent's part "to render services to the policyholders" and that the agent renders "service as a matter courtesy" or "as a matter of business expediency". The Federation have also said : "Our Federation is of firm opinion that the Renewal Commission is paid to an agent as a deferred payment of full compensation for the sale effected."

9.11.3. We find that both views are held even in foreign countries. We learn that in the U.K., one school holds the view that renewal commission is a deferred payment of commission while another regards the renewal commission as contingent upon the rendering of renewal services.

9.11.4. It should be pointed out here that the rate of renewal commission payable in the U.K. is much lower than in India, being a uniform 2½ per cent of all the premiums after the First Year's. But in the U.S.A. the popular rate of renewal commission of 5 per cent of the 2nd and subsequent premiums is restricted to a maximum period of 9 years (under 20-year-premium paying term policies); after the 10th year a low renewal commission or small service fee is paid. Compared to these, the L.I.C. is paying a maximum renewal commission of 7½ per cent of the 2nd and 3rd years' premiums and 5 per cent of 4th and susequent premiums throughout the entire duration of the contract. It is possible that the increased rates of renewal commission contribute to the rates of premium being charged by the L.I.C., comparing unfavourably with those in foreign countries. Considering all these facts and our aim that the insured public should get

insurance cover at the cheapest rates and have prompt after-sales-service, we feel that it is highly desirable that the rates of renewal commission should be rationalised and some after-sales-service be made a condition precedent for payment of at least a part of the renewal commission.

9.11.5. It will also be in the interests of the Agents themselves to keep in touch with and service their clients, as in addition to ensuring that they get renewal commission, they will be able to benefit from repeat sales (*i.e.*, further policies on existing clients) or good leads to clients' friends. *In the light of the foregoing observations, we recommend that the Corporation adopts the following commission structure for the renewal commisions becoming payable to its agents*:

(1) *The renewal commission may be paid at the following rate for standard plans and standard terms*:

2ndyear	3rd year	4th to 10th year	11th and subsequent year
10%	7 %	5%	3%

The commission rates for non-standard plans and non-standard terms may be fixed by the Corporation on the basis of the above.

(2) *So far as after-sales-service is concerned, the Corporation may entrust the agents with such services as may be considered reasonably necessary and practicable. Some of the Senior Agents, about whose credit-worthiness the Corporation is satisfied, may, after taking adequate safeguards be empowered to collect premiums from the policyholders, particularly in the rural areas.*

(3) *There does not appear to be any justification for the payment of renewal commission to agents' for policies coming under the Salary Savings Scheme of the Corporation. Under these contracts, premiums are automatically deducted from the employees' salaries by their employers, and the deductions so made are passed on to the Corporation direct. Since no after-sales-services are required to be rendered by the Agents under these policies the practice of paying them renewal commission may henceforth be discontinued.* (This is also referred to in the Chapter on 'Development of New Business').

These revised rates of first year and renewal commission should be made effective only in the case of policies issued after the scheme has been put into effect.

9.12.1. *Gratuity*: Some witnesses have suggested that in order to give agents a sense of belonging to the Corporation a Provident Fund or a scheme of Gratuity might be instituted. It appears that since agents are not salaried employees a contributory provident fund scheme may not be quite suitable.

9.12.2. A scheme of gratuity to the agents which is simple to understand and easy to administer may be a better way of providing retirement benefits. This scheme will enthuse the agents to strive to maintain their connection with the Corporation and serve the Corporation as career agents.

9.12.3. Ordinarily one gets entitled to a gratuity only when one puts in a minimum number of years of service. Similarly, in this case too, an agent should qualify for this benefit only after he has served the Corporation as agent for a certain minimum period of years. In the Corporation for all other classes of employees the minimum period of qualifying service for eligibility for gratuity is 15 years. We therefore suggest that the minimum period of service for agents too may be fixed at 15 years.

9.12.4. The amount of gratuity that is usually paid depends upon the final salary, or the average salary or the average salary drawn during the last few years. In the case of agents their is no specified salary. Agents are remunerated on the basis of commission, the commission itself being partly earned as first year commission (which is calculated on the first year premium) and partly as renewal commission (which depends on renewal premium). Since agents do not have a fixed salary, some other suitable criterion will have to be adopted for fixing the amount of gratuity. This amount should take into account the usefulness of the agent to the organisation and so may depend upon the length of his continuous service. The success of an agent is indicated by his total business in force on the day of his retirement, for which a good enough index is the renewal premium per annum under this total business. This should therefore be another factor to be taken into account. The cost of the gratuity scheme should have some relationship with the saving in renewal commission on account of the reduction in the rate of commission during the latter half of the premium paying term. The third factor to be taken into account should therefore be the total renewal commission at such reduced rate earned by him during the last year of his service. *We, therefore, recommend that the Corporation should devise a gratuity scheme for agents, the amount of gratuity being determined by the renewal premium per annum receivable under the policies canvassed by him which are in force on the day of his retirement, the length of his continuous service and the total renewal commission earned by him during the last year of his service at the final reduced rate. We suggest that a minimum period of service of 15 years may be stipulated for eligibility for gratuity*

Fixed Term (Marriage) Endowment Policy and Educational Annuity Policy

9.13. We understand that on 1st September, 1956 the rates of commission on Fixed Term (Marriage) Endowment and Educational Annuity Policies (*i.e.*, tables 19 and 20) were 10 per cent of the first year's premium (where premium paying period was 15 years and over) and 5 per cent of the subsequent premiums. Subsequently on 1st September, 1958 the rates of commission on these tables were increased to 25 per cent of the first year's premium, and 7½ per cent of the second and 3rd years' premium, bringing the commission rates in line with the commission rates under ordinary Endowment and Whole Life Policies. We understand that this has been done without any corresponding increase in the rates of premium. It is therefore not clear whether the rates of commission payable under these plans are justifiable and so a review of these rates appears necessary. *The Corporation may therefore undertake an immediate review of the rates of commission payable under the Fixed Term (Marriage) Endowment Policy and the Educational Annuity Policy.*

Hereditary Commission

9.14.1. Clause 8 of the Agency Appointment letter states that even after the termination of the Agency or the death of the agent, provided he satisfies the conditions laid down in Section 44(1) of the Insurance Act, 1938, the commission on renewal premiums will be payable according to the commission rates in force from time to time on the date of severance (i.e., termination or death), but in no case exceeding 5 per cent. According to Section 44(1) the maximum renewal commission payable after termination or death is 4 per cent. It is clear that the recipients of such commission do not render any service to policyholders. Therefore there does not appear to be any justification to be more liberal than what the statute requires. *Consequently we suggest that clause 8 of the Agency Appointment Letter should be suitably modified at the earliest possible opportunity to make the rate of renewal commission mentioned in it conform to the maximum of 4 per cent provided in the Insurance Act.*

9.14.2. The condition laid down in Section 44(1) for the payment of renewal commission after termination or death stipulates that "policies assuring a total sum of not less than Rs. 50,000 effected through him for the insurer were in force......". It may be observed that this limit was imposed as long ago as in 1950. We feel that with the increase in the average sum assured per policy (under new as well as existing policies) this limit has become too low, and should, therefore, be raised from Rs. 50,000 to Rs. 1,50,000. This may require an amendment of the Insurance Act. *We accordingly recommend that Section 44(1)(b) of the Insurance Act be amended by substituting the words "one lakh fifty thousand rupees" for the words "fifty thousand rupees" appearing in that Section.*

Regulation for Agents

9.15. Section 49(1) (b) of the Life Insurance Corporation Act, 1958, envisages the framing of regulations to provide for the method of recruitment and terms and conditions of service of agents. The Corporation does not appear to have framed these regulations so far. *We recommend that the Corporation may take early stops to frame regulations for its agents under Section 49(1) (b) of the L.I.C. Act, 1956: While framing these regulations the Corporation may keep our observations in view and see that the Regulations are framed in a manner that is conducive to the stability of their organisation.*

Institutional Agencies

9.16. We often find references to institutional agencies. The term seems to connote bodies like Cooperative Societies, Gram Panchayats, etc. Such agencies do not seem to be many in number. It appears to us that these agencies do not render the same personalised service to the insured clientele that individual agents do. One of the reasons why such agencies have not grown in number might be this lack of 'personal' touch to clientele. However, if some individual agents could join together and form some kind of institution, conforming to the provisions of the relevant laws, such institutional agencies might be able to render better service in a concerted manner. But such institutions cannot grow up without initiative on the part of the agents as well as the Corporation. *We accordingly recommend that institutional agencies like firms of two or three agents etc. should be encouraged.*

Senior Agents

9.17. The scheme for building up a stable cadre of career agents, outlined in the foregoing paras, is based on the principle that an average agent is paid a certain basic remuneration for the services rendered by him, with incentives for better than average performance. It might be held that remuneration of this type alone may not be sufficiently attractive for successful Agents to put in their best as Agents of the Corporation. That this is so has been brought to our notice by several of the witnesses who appeared before us. We also find that the Corporation itself is contemplating the granting of certain "fringe benefits" to successful Agents whom it has chosen to describe as "Senior Agents". *We should point out that in formulating "fringe benefits" for Senior Agents the Corporation should pay due attention to the expenditure that would be involved.*

Licensing of Agents

9.18. We shall now refer to a problem incidental to the appointment of agents. At present agents have to obtain a licence from the Controller of Insurance under Section 42 of the Insurance Act, 1938. It appears that the object of this system of licensing is to see that persons who suffer from the disqualifications mentioned in Section 42(4) are not appointed as agents. These disqualifications are: being a minor, being found to be of unsound mind by a Court, being found guilty of criminal misappropriation or criminal breach of trust by a Court, and being found guilty of having knowingly participated in any fraud or dishonesty or misrepresentation against an insurer. The Corporation is a statutory body, and can be relied upon to ensure that the above objects of licensing are achieved without the cost involved in this system. It has, earlier, been explained that the assistance given to agents for obtaining and renewing the licence involves considerable administrative work and consequently increases the expenses of the Corporation. We have recommended, elsewhere in this chapter, that agents should be required to pass an examination. The Corporation is insisting on certain minimum educational qualifications for agents. These requirements, and particularly the passing of the examination test, and the scrutiny that can be expected to be made by the L.I.C. will make the licensing system superfluous, so far as life business is concerned. If a licence is required for doing general business, then the work and expense involved will be rightly debitable to the General Department of the L.I.C. *We, therefore, recommend that the Government may examine whether licensing can be dispensed with for procuring life insurance business.*

CHAPTER X

LAPSES

Definition of 'Lapses'

10.1.1. If premiums under a life insurance policy are paid for a specified period and then discontinued, an immediate cash payment called the Surrender Value is available under the policy; in the alternative, the policy can be changed into what is called a paid-up policy, under which no further premiums are payable, and a reduced sum assured is available at the same time, and on the same terms and conditions, as the original sum assured. (Generally, the reduced sum assured bears the same proportion to the original sum assured, as the number of instalment premiums paid bears to the number of instalment premiums payable.) Policies issued by the L.I.C. acquire a paid-up value after two years' premiums have been paid, they acquire a surrender value after the payment of two years' premiums or one-tenth of the number of instalment premiums originally stipulated (subject to a minimum of one year's premium). If premiums are discontinued before the policyholder becomes entitled to a paid-up policy or the surrender value, he gets no benefit involving cash payment either immediately or later.

10.1.2. The L.I.C. describes all policies under which premiums have been discontinued as "lapsed". Where the policy has not acquired a paid-up value, the entire sum assured is taken as lapsed. Where the policy has acquired a paid-up value, the difference between the original sum assured and the paid-up value is taken as the sum assured that has lapsed. Some of the I.H.O. Units follow a slightly different method. They make two entries—one in the lapse column for the full sum assured and another, a contra entry in the revival column for the sum assured equal to the paid-up value. The net effect is, however, the same when one considers the net lapses, that is, lapses less revivals.

10.1.3. There are some policies issued by the erstwhile insurers under which, when premiums are discontinued after the policy has acquired a surrender value, the premiums that fall due subsequently are automatically advanced from the surrender value available.* When there is continuing default under such policies, a stage comes when the premiums advanced (from the surrender value) together with the unpaid interest add up to more than the surrender value available. Such policies are taken as 'lapsed' when their surrender value becomes less than the premiums advanced and the interest due thereon.

10.1.4. Lapse has not been specifically defined in the Insurance Act 1938. However, Section 113 sub-section 2, refers to "lapses" and says.

> "......Policy which has acquired a surrender value shall not lapse by reason of the non-payment of further premiums but shall be kept alive to the extent of the paid-up sum assured........."

Sub-Section 4(c) of the same section has the following provision:

> "...... shall not apply to policies in which the surrender value is automatically applied under the terms of the contract to maintaining the policy in force after its lapse through nonpayment of premium."

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*This provision is called "Automatic Non-forfeature".

10.1.5. Forms DDD and DDDD contain the items "By forfeiture or lapses", "particulars of policies forfeited or lapsed."

10.1.6. Section 113(2) appears to mean that policies which have acquired surrender value, are not to be treated as lapsed. However, sub-section 4(c) does not appear to support this view. The Chief Actuary of the L.I.C. told our Committee that forfeiture refers to cases where the policy has not acquired surrender value, and "lapsed policies" therefore, include policies which have been converted into paid-up policies.

10.1.7. Our Committee is not called upon to give an opinion on what the correct legal interpretation of the word "lapse" is. We are, however concerned that full information on all types of voluntary terminations, whether before or after acquiring a paid-up or surrender value, is shown in an intelligible manner in the usual returns of the L.I.C. These returns are prepared in forms DDD and DDDD. The DDD form reconciles the particulars at the beginning of the year with these at the end of the year by allowing for all additions and subtractions during the year. The DDDD form gives the particulars of forfeited or lapsed policies, (that is, all voluntary terminations except surrenders), according to the years in which the policies concerned were issued. These forms are of considerable statistical importance, and serve as a check on the accuracy of the data compiled. It is, therefore, necessary that the forms give as much detailed information as practicable. Surrenders, for instance, are separately referred to in form DDD, but not conversions into paid-up policies. We would, therefore, suggest that the item of forfeited or lapsed policies in form DDD should be split up into (i) forfeited policies, that is, policies under which premiums have been discontinued before acquiring paid-up or a surrender value and policies which have been terminated after the operation of the automatic non-forfeiture procedure and (ii) paid-up policies. In line with this suggestion, form DDDD may also show forfeited policies and paid-up policies separately. At present, some of the details in form DDD look puzzling, since the statement combines both types of policies in the same form. For instance, the form on P. 59 of the Annual report for the year 1967-68 shows that though no policy out of those issued in India during the year ending 31st March, 1954 was forfeited in the year 1967-68, the sum insured forfeited under such policies was Rs. 32,20.972. This makes one wonder how, if no policy out of a particular group had been forfeited, a part of the sum insured could be forfeited in the same group. The explanation given to us was that when a paid-up policy was included in this form, there was really no change so far as the number of policies was concerned, but a certain sum did lapse, viz., the original sum assured *minus* the paid-up amount. We have no doubt that this difficulty would disappear, and entries would be quite intelligible, if the particulars about paid-up policies are shown in a separate DDDD form, suitably designed for the purpose. Particulars of paid-up policies according to the year of issue may be of some use for the analysis of the surplus that we are suggesting elsewhere as a routine procedure that should accompany each valuation. From this point of view it will be useful to give particulars about surrenders too in a suitably prescribed DDDD form. *We, therefore, recommend that item* (11) *of the DDD statement, namely, "By Foreiture or Lapse" may be sub-divided into* (*i*) *By forfeiture under policies that have not acquired a paid-up or surrender value and those terminated after being continued for some*

time under the automatic non-forfeiture clause and (ii) By lapse under paid-up policies. We further recommend that the prescribed DDDD form may be suitably modified to show these sub-divisions. The statement may also give an analysis according to the year of issue of both these types of policies and also of surrenders.

Lapses after payment of one instalment of premium:

10.2.1. The Corporation has made an investigation into policies that have lapsed after the payment of the first instalment of premium, that is, policies under which only the instalment paid for completion of the proposal has been received by the Corporation. The results of this investigation for the Corporation as a whole are given below:

Year of Issue †	Ratio of Lapse after first instalment of premium to new business	
	Based on No. of Policies	Based on Sum Assured
	%	%
1959	20·05	18·02
1960	22·50	21·49
1961	23·61	23·05
1962-63	21·40	18·51
1963-64	18·16	16·60
1964-45	18·67*	15·57*
1965-66	17·67**	15·06**

†Figures for the latest years have not been made available to us.

*Excluding Jamshedpur, Hyderabad and Thanjavur Divisions.

**Excluding Hyderabad and Thanjavur Divisions.

10.2.2. These figures show that, for 18 to 24 per cent of the new policies, the Corporation is in receipt of only one instalment of the premium whether it be yearly, half-yearly, quarterly or monthly. The percentage based on Sum Assured showed an increase from 18 in 1959 to 23 in 1961, and thereafter decreased to 15 in 1965-66.

10.2.3. Similar percentages for the various Divisions (on the basis of the sum assured) are given in Appendix 17. It will be seen from this Appendix that the lapse percentage varies within a wide range, the minimum being 7.09 for Cuttack for 1962-63 and the highest being 40.73 for Ajmer in 1961. The Bombay Division has consistently experienced very low rates, whereas Ajmer and Muzaffarpur experienced heavy lapse rates.

10.2.4. A senior officer of the Corporation has gone on record to say that one of the factors contributing to lapses is:—

> "Spurious business, that is to say, proposals which are introduced and completed without and real sale having been made and purely with a view to obtain some advantage or other for the agent of the development officer. Practically all policies which lapse after the payment of the first premium might be of this category."

According to this standard nearly 20 per cent of the new policies issued every year turn out to be spurious business, the percentage reaching as high a figure as 40.73 per cent in a division.

10.2.5. A disturbing feature about the lapses that take place after the payment of the first premium is that the percentage based on the number of policies is somewhat higher than that based on the sum assured. This would mean that the extent of spurious business in policies with smaller sums assured is somewhat higher than that among policies with larger sums assured. In so far as persons of smaller means go in for smaller sums assured, it is distressing to see that about 20 per cent of them pay the first premium without getting any cash return for it.

10.3.1. *Analysis of "Lapses"*.—It will be interesting to know how the lapse rate is related to various characteristics like mode of payment, sum assured, occupation of the life assured, financial status of the life assured, area of origin (rural or urban), and medical and non-medical business. The Corporation has not undertaken any detailed study or analysis of the incidents of lapses. A sample study has been conducted, and the results of this have been made available to the Committee. The percentage of lapses after payment of first and subsequent instalments are shown in Appendices 18 to 21, separately, for yearly, half-yearly, quarterly and monthly modes of payment of premium. The result of this sample study have been sub-divided according to:—

(1) Month of Issue [figures of peak (March or December) months and non-peak (other months) months are shown separately].

(2) Medical and Non-Medical.

(3) Business pertaining to Divisions which are predominently rural and those that are predominently urban.

10.3.2. We may point out that the sample survey dealt with the new business written by eight divisions. Four of these Divisions were predominently urban (Kanpur, Delhi, Madras & Bombay), and the other four, predominently rural (Meerut, Muzaffarpur, Udipi and Satara). The new business selected for the sample was the business transacted in one of the peak months (March or December) and one of the non-peak months of 1962-63, 1963-64 and 1964-65. The sample consisted of 11,411 policies issued. It must be admitted that the size of the sample is small, and there is a possibility that the data selected might not have been a random sample of the Corporation's new business as a whole. Nevertheless, the

characteristics revealed by the sample study appear to be fairly reliable. For the entire sample, and for the various sub-heads—peak, non-peak; medical, non-medical, urban, rural—, the modewise distribution of business is given in the following table:—

TABLE 10·1

Modewise Percentage Distribution of a Sample of New Business and its Sub-Divisions.

Mode	Whole Sample	Peak	Non-Peak	Medical	Non-Medical	Urban	Rural
Yearly	26·58	27·21	25·50	32·83	14·93	31·86	20·36
Half-yearly	24·25	24·13	24·46	25·76	21·43	19·81	29·48
Quarterly	44·53	44·44	44·67	38·68	55·43	42·26	47·20
Monthly	4·64	4·22	5·37	2·73	8·21	6·07	2·96

The percentages of yearly, halfyearly, quarterly and monthly policies (excluding salary saving policies) are 27, 24, 44 and 5 respectively, for whole business. There is no material difference in the distribution for the business done in peak months and non-peak months. The proportion of yearly and half-yearly modes is greater in medical policies than in non-medical policies, the proportion of yearly medical business being more than 200 per cent of the yearly non-medical business. The proportion of half-yearly and quarterly modes in rural policies is greater than that for urban policies, the half-yearly rural proportion being about 150 per cent of the half-yearlies in urban business. On the basis of these figures and the information given in Appendix 18 to 21 the rates for "lapse after paying one instalment of premium", irrespective of the mode of payment, are calculated and shown below:—

Peak	21·92%	Non-peak	19·04%
Medical	18·72%	Non-Medical	24·84
Urban	85·47%	Rural	27·06%

Whole Sample 20·87%

The rate for the whole sample can be compared with the similar rates for the Whole Corporation for the years 1962-63, 1963-64 and 1964-65 given in para 10.2.1. of this Chapter. Though the former is slightly on the higher side, the difference is not large. The results disclosed by the sample may therefore be taken as fairly reliable. The lapse rates for the various sub-divisions more or less bear out the general beliefs that are held about lapses.

10.3.3. The peak rate is higher than the non-peak. Though the difference is small enough, it is doubtful whether it can be described as insignificant. As for the sub-divisions, medical and non-medical, urban

and rural, the differences are substantial. The rate of lapses after one instalment of premium is paid in non-medical business is about 133 per cent of the rate for the medical, whereas the similar rural rate is about 175 per cent of the corresponding urban rate.

10.3.4. We should recall here that elsewhere in this Report we have recommended measures to reduce the disparity between the business done in peak months and non-peak months; we have also suggested that single premium policies (under which there is no possibility of lapse) may be popularised in the rural areas.

10.4.1. *Cause-wise Analysis of Lapses.*—We have no doubt that it will be extremely useful and instructive to investigate the reasons for lapses. Unfortunately no detailed investigation of this kind has yet been made. The L.I.C. has, however, conducted a sample survey by sending out 4540 questionaires to policyholders whose policies had lapsed at early durations and where in a condition of lapse between May, 1966 to August 1966. There were 1332 responses, *i.e.* about 29 per cent of the persons approached replied; and the analysis of these results is summarised in the following table:

TABLE 10·2

Cause-wise analysis based on a sample survey (the sample consisting of 1,332 responses.)

	Urban Medical		Rural Medical		Urban Non-Medical		Rural Non-Medical		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
1. Forgot to pay the premium in time	43	16·5	52	11·6	17	7·3	43	10·9	155	1 6
2. Inadequate facility to collect the premium .	11	4·2	12	2·7	14	6·0	9	2·3	46	3·5
3. Financial difficulty	160	61·6	321	71·9	174	75·0	307	78·2	962	72·1
4. Alterations desired	16	6·2	8	1·8	5	2·2	8	2·0	37	2·8
5. Not satisfied with servicing .	18	6·9	23	5·1	9	3·9	8	2·0	58	4·4
6. Other reasons .	12	4·6	31	6·9	13	5·6	18	4·6	74	5·6
	260	100·0	447	100·0	232	100·0	393	100·0	1332	100·0

It is very strange that inadequate arrangements to collect premium should be cited as the reason for a larger number of lapses in urban areas than in rural areas. While only 2.7 per cent of the holders of rural medical lapsed policies, cited this as the cause of lapse, 4.2 per cent of the holders

of urban medical lapsed policies ascribed lapse to this reason. Again as far as non-medical lapsed policies are concerned, 2.3 per cent is the percentage of lapse ascribed to this cause in the case of rural business, as against 6.0 in the case of urban business. Similarly, it is surprising that under medical lapsed policies only 11.6 per cent forgot to pay the premium in time in the case of rural policies, while 16.5 per cent did so in the case of urban policies. It will be seen from the table that over the whole sample,—financial difficulties accounted for lapses in 72.1 per cent of the cases, and the policy-holder forgot to pay the premium in 11.6 per cent of the cases. The percentage reporting unsatisfactory servicing is only 4.4. Thus, this sample does not permit one to conclude that unsatisfactory servicing is responsible for any significant proportion of lapses. We are well aware that the results revealed by this sample have to be interpreted with caution, since the size of the sample is small, and even in the sample selected, less than onethird of the persons approached cared to reply.

10.4.2. We must mention here that quite a few Zonal Managers told us that the major cause of lapses was the failure of Development Officers and Agents to maintain their contacts with the Policyholders and they estimated on the basis of sample surveys, that this was the reason for 70 per cent to 80 per cent of the lapses. It is difficult to reconcile the Zonal Managers' estimates with the figures revealed by the Corporation's Sample Survey. Surely it cannot be said that those who discontinued the payment of premium on account of financial difficulties—*i.e.* 72.1 per cent according to the above sample, would have continued their policies if they had been contacted by agents or development officers. Thus the Corporation's sample shows that those who would not have allowed their policies to lapse if there had been continuing contact, were **less than 27.9** per cent. The Zonal Managers would put this category at 70 per cent to 80 per cent.

10.4.3. It may be that there are significant differences between the different samples chosen for the different surveys. Indeed one of the views expressed before us was that the characteristics of lapses depend upon the divisions concerned. This only underlines the necessity for periodical surveys in different areas and a serious effort to analyse and understand the reasons for the differences, if any, in the results obtained by such surveys. An investigation has value only when it reveals or leads to steps that can reduce lapse rates. For instance, discovery that financial difficulty is a major cause of lapses does not in itself help us to find the solution. But if it can be known whether financial difficulty for the policy was there from the beginning, then some remedial measures can perhaps be suggested, about pre-sale verification of proponents' capacity or choice or policies that lie within the capacity of the proponent; if financial difficulty has intervened later, then lapse obviously is inevitable. So the group of persons who gave financial difficulty as the reasons requires further approach and further examination. Again, we must know what aspects of servicing dissatisfied the policyholders to such an extent that they allowed their policies to lapse. Without this, it will not be possible for us to improve servicing and gear it up for the conservation of business. Some witnesses have suggested that late issue of policies is one of the reasons for lapses. This is a sufficiently specific statement

of the cause and it is easy to plan remedial action. A cause-wise analysis must aim at a detailed statement that can help in the formulation of remedial action. *We, therefore, recommend that the LIC should conduct periodical surveys at Divisional levels and in various places, to investigate the incidence of lapses by policy years, type of business rural, urban, medical, non-medical etc. and to ascertain the specific causes of lapses in a manner that is precise enough to indicate remedial action.*

10.5.1. *Lapse Rates.*—(i) *Overall net lapse ratio.*—The overall net lapse ratio is the ratio of the difference between the sum assured lapsing and the sum assured revived during an accounting period to the mean sum assured in force during the accounting period.

(ii) *Durational lapse ratio.*—The best method of studying lapses is to take the new business done during a particular year and follow it during the next few years and see how much of it lapsed in the same year, how much in the next year and so on (after adjusting the figures for corresponding revivals). This method has been followed by the Controller of Insurance in presenting the statistics of lapses in successive issues of the Insurance Year Book.

10.5.2. The lapse ratios at mean duration (i.e. year of lapse—year of issue) 0, 1, 2 & 3 are calculated and published by the Corporation. Since, according to the current practice in the Corporation, a policy is treated as lapsed only six months after the due date of the first unpaid instalment, the lapse rates at mean duration '0' are only of limited value.

10.5.3. Lapses which occur during the first two policy years require serious attention since in most of such cases the policyholder gets no cash payment either immediately or later. Such lapses can occur at mean durations 0, 1, 2 and 3. It will, therefore, be sufficient if we analyse lapses upto mean duration 3. Moreover, lapses after mean duration 3 are not likely to be appreciable as compared to lapses at earlier durations.

10.5.4. The following tables show the overall lapse rate of the Corporation from 1958 onwards and the lapse rates at mean duration 0, 1, 2 and 3.

TABLE 10·3

Year	*Overall net lapse ratio*
	%
1958	5·1
1959	6·0
1960	6·6
1961	7·0
1962-63	8·1*
1963-64	8·2
1964-65	7·5
1965-66	7·2
1966-67	7·4
1967-68	7·0

*Annual Rate.

TABLE 10·4

Lapse Ratios.

LIC

Year of Issue	Percentage of net laoses at mean duration				Total of Cols. (2), (3), (4) (5)
	0	1	2	3	
(1)	(2)	(3)	(4)	(5)	(6)
1958	1·2	18·0	9·8	3·7	32·7
1959	1·1	19·4	9·1	5·4	35·0
1960	0·8	21·3	10·8	5·3	38·2
1961	0·8	23·3	10·9	4·6	39·6
1962-63* . . .	1·4	20·0	9·4	4·3	35·1
1963-64 . . .	1·9	19·6	10·0	6·3	37·8
1964-65 . . .	2·3	20·5	10·9	5·9	39·6
1965-66 . . .	2·0	18·1	10·7		
1966-67 . . .	1·5	17·9			
1967-68 . . .	1·4				

*Though the accounting period 1962-63 was of 15 months for puposes of this table, only the business of the period 1st April, 1962 to 31st March 1963 has been traced through subsequent years.

NOTE :—In the above Table 'Year' means calendar year upto and including 1961. Thereafter, the LIC changed its accounting period from 1st January to 31st December to 1st April, to 31st March. The same period has been taken for the investigation of lapses to, and so 'year' means the financial year for business transacted in years from 1962-63 onwards. However, the earlier business (transacted upto 1961) has been traced by calendar years.

10.5.5. As can be seen from Table 10.3 the overall lapse rate of the Corporation increased from 5.1 in 1968 to 8.1 in 1962-63, and thereafter decreased to 7.2 in 1965-66, increased slightly to 7.4 in 1966-67 and then decreased to 7.0 in 1967-68.

10.5.6. Out of the business done in any one year, the percentage lapsing at mean durations 0, 1, 2 and 3 and the total for all these mean durations is given in Table 10.4. The total net lapse at mean durations 0 to 3 was the lowest at 32.7 for the business of 1958, increased to its highest value 39.6 for the business of the year 1961. Subsequently, though there was a fall for the business of 1962-63, there has been an increase for 1963-64, and 1964-65, the lapse rates for these years being 37.8 and 39.6 respectively.

10.6.1. *Lapses of different Zones and Divisions.*—While these figures give a picture for the Corporation as a whole, the various Divisions and Zones present a different picture. The lapse rate for the various Zones and Divisions are given in Appendix 22(a) to 22(e) and Appendix 23 respectively.

10.6.2. Among the Zones, the Western Zone has the smallest percentage of lapses, the percentage for mean durations 0 to 3 being 25.6 against 39.6 for the Corporation as a whole for 1964-65 business. The southern Zone is near about the average; the Central Zone is slightly worse than the average, the percentage being 41.2. The Northern Zone had a bad experience, the percentage being the highest at 51.7 for the 1961 business. This however, decreased steadily to 41.3 for the latest year. The Eastern Zone which had an average experience appears to have deteriorated considerably in recent years (percentages being 49.6 and 60.0 for the business of 1963-64 and 1964-65 respectively).

10.6.3. In the Western Zone, most of the Divisions have a low lapse percentage at mean duration 0 to 3 except Nasik and Satara which are round about the average for the Corporation as a whole. In the Southern Zone, Bangalore, Machilipatnam and Trivandrum have lapse percentages which are favourable. The experience of Coimbatore and Thanjavur has deteriorated in recent years. In the Northern Zone, Delhi has a favourable experience while Jullundur and Chandigarh are worse than average. Ajmer showed a very high percentage of 67.9 for the business during calendar year 1962. However, the position has not been so bad for the later years, the latest figure being 50.8. In the Central Zone, Indore and Meerut are better than average. Jabalpur and Lucknow are about average, Agra and Varanasi are bad. The lapse experience of Kanpur has deteriorated considerably in recent years; from 39.0 to 47.5, but the rate has now gone down to 40.4. In the Eastern Zone, Gauhati, Asansol and Jamshedpur show better than average performance. Cuttack and Patna show heavy lapses. Muzaffarpur has shown heavy lapse rates (over 60 per cent) right upto 1962-63; except for the year 1960. For the business of the calendar year 1962, the lapse rate was actually as high as 79.7 per cent. For the business of 1963-64 and 1964-65 the lapse rate has been 46.2 per cent and 45.1 per cent respectively. The experience of Calcutta and Jalpaiguri has deteriorated considerably in recent years—Calcutta from 38.6 to 88.1 and Jalpaiguri from 38.2 to 61.3.

10.6.4. The Committee wanted to make a detailed study and to ascertain the reasons for the sudden deterioration in the lapse experience of Calcutta and Jalpaiguri Divisional Offices. The Corporation informed us that:—

> "the Cumulative lapse percentage (for mean duration 0-3) for 1964-65 in respect of business in Calcutta Divisional Office stands at 88.1 per cent, and the corresponding figure for 1963-64 at 65.3 per cent; these appear to be inconsistent with the renewal premium income recorded by the Calcutta

> Divisional Office in recent years. Here also the possibility of lapses at later durations being inadvertently included in the earlier durations cannot be ruled out. Steps are being taken to examine these statistics departmentally before the next valuation of the Corporation as at 31st March, 1969. It is not possible to find out the exact reason for the deteriorating lapse experience in a short period, in the absence of a detailed analysis, which will necessarily involve considerable time, labour and expenses."

10.6.5. We are not satisfied with this reply. It should be a part of the normal routine of the Corporation to examine the lapse experience of the various Divisional Offices, locate the areas of deteriorating experience and promptly take remedial steps.

10.6.6. It would be possible to locate the areas of heavy lapsations only if branchwise statistics of lapses are maintained. At present the Corporation does not have lapse statistics for the different branches. If appropriate remedial steps are to be taken even branchwise statistics would not be enough. It will be necessary to have lapse figures for each Development Officer. This will enable the Corporation to keep a watch on each Agent and Development Officer and induce strict vigilance at every level. *We, therefore, recommend that the Corporation should maintain lapse figures for each Branch and each Development Officer.*

10.7.1. *Economic Implication of Lapses.*—We must now examine how lapses effect the policyholder and the insurer, and under what circumstances they mean a loss or gain to one or other of the parties.

10.7.2. *From the Policyholders' point of view.*—If the premiums under a policy are discontinued after some instalments have been paid, the loss from the policyholder's point of view will consist of the amount of premia paid by him less the cost of benefits acquired by him under the policy. A basic difficulty arises at this stage. Are the benefits that one refers to merely cash benefits—immediate as in the case of a surrender value or distant as in the case of a paid-up policy, or are they also to include actuarial benefits like the cost of the risk covered. In the latter case, the cost can be calculated on the basis of an average. Thus, an insurance transaction is not at par with a money transaction between two parties, and, therefore, one will have to be clear in one's mind as to what one exactly means by loss or gain to either party in the case of a lapsed policy. In this discussion, we shall include the cost of the coverage of risk.

10.7.3. The following then, are the benefits derived by a policyholder who allows his policy to lapse. For the period covered by the premiums paid the policyholder has enjoyed the benefit of death risk cover. If the policy has acquired a paid-up or surrender value by the time the premiums are dicontinued, the policyholder derives this additional benefit under the policy.

10.7.4. A death risk cover is like a temporary insurance under which monies are paid only if death occurs. Theoretically the cost of death risk for one year is of the order of Re. 1 per thousand at age 30 increasing to Rs. 20 per thousand at age 60. For any type of ordinary policy like an endowment assurance or whole life policy, the premiums paid up to the time of lapse will be substantially larger than the cost of the death risk covered. So in the case of a lapse, when no paid-up or surrender value has accrued, the policyholder loses the entire sum that he has paid if cash benefits alone are taken into consideration and he loses substantially even after the actuarial benefits are taken into account.

10.7.5. Now let us consider cases in which lapses occur after the policy has acquired a paid-up or a surrender value. Of course, up to the time of lapse, death risk is covered in this case too; and it is in addition to this cover, that the paid-up policy or the surrender value is received.

10.7.6. It has already been pointed out that the sum assured under the paid-up policy ordinarily bears the same proportion to the sum assured under the original policy as the number of instalments of premiums paid bears to the total number of instalments payable. The paid up sum assured, however, is payable at some uncertain date in the future when the sum assured under the original policy would have been payable. What in effect is available to the policyholder at the time of lapse is the value at that time of the paid-up policy. It is only after comparing the sum of this value and the cost of death risk covered till the date of lapse with the premiums paid that we can measure the loss or gain to the policyholder. The other alternative of taking the subsequent paid-up policy, instead of the value of the paid-up policy at the time of lapse, mixes a lapse with a claim, and does not give us a measure of the loss or gain due solely to lapse. If this alternative is followed, we would be required to take into account the idea of how an early death claim under the paid-up policy, benefits the policyholder. This idea of gain or loss from a claim is wholly foreign to the concept of insurance, and the use of the word 'benefits' is not appropriate in the context of an early claim. We shall, therefore, leave this idea out of account, and only consider the value of the paid-up policy (or surrender value) and the cost of the death risk covered as the benefits accruing to the policyholder whose policy has lapsed. What relationship these two benefits have to the premiums paid is what we shall examine in the next paragraph.

10.7.7. Out of the premiums received from the Policyholders, after meeting the claims and expenses, the insurer invests the balance, and the aggregate of these invested amounts forms the Life Fund. The portion of the Life Fund arising out of the premiums paid under an individual policy can be considered as the reserve available under that policy. The value of the paid-up policy or the surrender value is ordinarily less than this reserve. Even when the cost of the death risk cover is added to this reserve, the resultant aggregate is generally less than the premiums paid. Thus the benefits received by the policyholder whose policy lapses, *viz.* the value of the paid-up policy or surrender value and the cost of the death risk cover, are less than the premiums paid by him. In this case too a lapse, therefore, results in a loss to the Policyholder.

10.7.8. *From the Insurer's point of view.*—If premiums are discontinued after the policy has acquired a paid-up value or surrender value there is generally a small gain to the insurer, as, part of the reserves is held back by the Insurer. But, it is not always easy to determine whether the insurer has made profit or incurred a loss on an individual policy that has lapsed before acquiring any paid-up value or surrender value.

10.7.9. In fact, in insurance, the practice is not to consider individual policies and reckon whether each policy has led to a loss or profit to the insurer. For instance, if a policyholder dies after paying one premium, the full sum assured becomes payable, and yet it is not said that this constitute a loss to the insurer. Similarly with regard to lapses too it will be both hazardous and injudicious to attempt to determine the profit or loss involved in each individual policy that has lapsed.

10.7.10. Even so, it is possible to think of two ways of examining the question:

(1) To consider all the policies issued in a year as a group and examine this group in regard to the operations during the first year of the policies, for instance, the total premium received under all such policies, the total expenses incurred, and the cost of benefits including cover given thereunder.

(2) Leaving aside for a moment the objection to consider each individual policy, to examine whether the premium received under each policy is in excess of or short of the expenses incurred on the policy, and the cost of cover provided to the policyholder.

10.7.11. But even these methods have defects that affect the exactness and utility of the final result. The first of these methods takes into consideration not only the policies that lapse, but also the policies that continue, and this cannot be described as a strictly correct procedure.

10.7.12. The second method requires an examination of individual policies that lapse (which is not the usual practice); even if this is to be done, we face another problem. Profit (or loss) to the insurer will depend upon whether what the insurer has received from the policyholder is more (or less) than the expenses incurred for a policy and the cost of cover and other benefits given to the policyholder. While some of the expenses can be indisputably identified as specifically related to individual Policies medical fees, policy stamps, etc.), a major portion of the expenses, especially staff salaries etc., are common to all policies including that do not lapse. It, therefore, becomes necessary to make some assumptions as to how these common expenses are to be apportioned to individual policies. Such an assumption involves some kind of averaging between policies that lapse and policies that continue. Averaging the common expenses while considering individual policies introduces an element of arbitrariness which in turn vitiates the result.

10.7.13. Apart from these theoretical objections, there are very real practical difficulties. The expenses referred to in the preceding paragraph are first year expenses. The total expenses under each head are not given separately for new business and renewal business in the L.I.C.'s

accounts. Some method of allocation between first year and renewal (out of those described in the Chapter on "Indices of Expenses") may have to be adopted. If we adopt the budget form of analysis of expenses as between first year and renewal, it can be seen that the part of the total first year expenses which cannot be easily identified with individual policies is Rs. 13·04 crores in 1967-68. It may be assumed, for purposes of illustration, that they relate to Rs. 14·28 lakhs of first year policies for a sum assured of Rs. 844·27 crores. The difficulty now arises as to how to apportion these expenses to each individual policy. If they are distributed among policies on the basis of the total number of policies, (the expenses per policy on this basis would be about Rs. 91), a policy for Rs. 1,000 sum assured would share the same overheads (common expenses) as another for Rs. 10,000 or Rs. 1,00,000. This may not be correct in the case of some overheads like bank charges. Spreading on the basis of Sum Assured, (*i.e.* the expenses considered as Rs. 15 per thousand Sum Assured), would mean that unduly large overheads, for instance, on salaries, are put on a high Sum Assured policy than on a policy for small Sum Assured, though the amount of administrative work involved in either of them is not materially different. Moreover, some policies lapse after the payment of one quarter's premium, some others after paying 2 quarters' premiums, yet others after 3 quarters' premium etc., while some go on even beyond the end of a year. It will be difficult to justify the asumption that each of these policies should bear the same overheads. There can be honest differences of opinion on how these policies are to bear the overheads.

10.7.14. Thus, we see that both the methods by which an investigation can be carried out, are open to serious theoretical objections.

10.7.15. However, as has already been pointed out, certain expenses can be considered as incurred indisputably in respect of individual policies. Even if we take these expenses into account and ignore other expenses, it can be seen that in the case of some early lapses, the expenses incurred are not covered by the premiums received under the policy. In the case of other policies that lapse, the premiums received cover, or more than cover, the specific expenses. For instance, if we consider a 25 year limited payment whole life policy (at page 35) for Rs. 1,000, with quarterly mode of payment, which lapses after the payment of one quarter's premium, the annual premium and the specific expenses in respect of this policy will be as follows :—

		Rs.
Annual Premium	..	37·81
Commission @ 25% of the Premium	..	2·36
Medical Fees	..	8·00
Policy Stamp	..	0·40
		10·76

But the quarterly premium received under the policy is only Rs. 9·45.

10.7.16. But if the sum assured is Rs. 5,000, the specific expenses incurred under the policy are covered even if one quarter's premium is received.

10.7.17. What we have said in the preceding paragraphs makes it clear that there is only limited value in discussing whether an individual lapsed policy has been a loss or a gain to the insurer, who is concerned largely with what happens with the totality of his business. Since the insurer makes a definite profit on Surrenders and paid-ups, considering all voluntary terminations together, *i.e.*, surrenders, paid-ups and lapses, it can be said that the premiums received in respect of all such voluntary terminations would more than cover the cost of the benefits provided and the expenses incurred by the insurer. The insurer does not therefore incur any loss in the aggregate.

10.7.18. Lapses can be examined from yet another angle. While, under a continuing policy, the insurer receives the renewal premium, the insurer ceases to receive the renewal premium when the policy lapses. Though the insurer also ceases to bear the risk or incur further expenses under those policies, a heavy lapse rate affects the growth of the renewal premium of the insurer, and therefore, increases the proportionate cost of the overheads. There can, therefore, be no doubt that "a policy that stays is a policy that Pays".

10.7.19. One of the Managing Directors has given us estimate of the loss due to lapses arising from the new business of 1966-67, during the first two policy years. This loss has been estimated at approximately Rs. 2·5 crores. It must be pointed out that this estimate applies to all the lapses taken together, and not to individual lapses. Further, it starts with the aggregate of lapses, and does not combine lapses with continuing business except in the assumptions made. The details of these assumptions and the calculations are given in Appendix 24. Since Rs. 2·5 crores is the estimate of the loss arising from lapses within the first two policy years only, there is no contradiction between this estimate and the statement that taking all volunary terminations together, irrespective of their duration the insurer does not incur any loss in the aggregate.

Lapse Experience prior to Nationalisation:

10.8.1. The lapse rates for mean duration 0, 1, 2 and 3 for Oriental, Hindustan Co-operative, National, New India and Bombay Mutual of the Indian Companies, and Prudential and Sun Life of the foreign companies operating in India are shown in Table 10.5 (Taken from Year Books). The combined experience of all Indian Insurers is also shown. While comparing these rates with the lapse rates of the Corporation, the differences in economic conditions at various times should also be taken into account. There is another point of difference that cannot be ignored. Policies transferred from one company to another before acquiring the paid-up value or surrender value constituted lapses in pre-nationalisation days. This type of lapse has ceased to exist now. Even apart from these factors, it can be seen that the Corporation's experience is better than the combined experience of all the Indian Insurers before nationalisation. The lapse rates of Bombay Mutual for 1951 business were lower than those of the business of the L.I.C. but deteriorated for the business of 1952. The experience of the New India and United India is more or less the same as

that of the L.I.C. Oriental's experience of 1951 business was good, but the lapse experience deteriorated for the 1952 and 1953 business. Hindustan Co-operative and National had a lapse experience which is heavier than that of L.I.C. Prior to Nationalisation only special types of insurers with very low possibility of pressure sales, like Bombay Postal Employees, Bombay Co-operative, Bengal Secretariat etc. had very low lapse rates.

TABLE 10·5

Lapse rates prior to Nationalisation

Year	Lapse rate at mean duration 0	1	2	3	Total (0—3)
	Oriental				
1951	1	18	9	7	35
1952	1	18	10	17	46
1953	1	19	16		
1954	1	11			
	Hindustan Co-operative				
1951	3	30	11	3	47
1952	4	31	9	2	46
1953	2	36	8		
1954	1	30			
	New India				
1951	9	24	7	—2	38
1952	10	23	9	—2	40
1953	11	29	7		
1954	9	17			
	Bombay Mutual				
1951	2	16	10	4	32
1952	3	24	11	3	41
1953	6	31	5		
1954	4	17			
	National				
1951	3	33	12	3	51
1952	2	31	12	2	47
1953	2	36	11		
1954	2	27			
	United India				
1951	4	21	10	3	38
1952	3	21	9	2	35
1953	3	20	11		
1954	3	15			

Combined Experience of All Indian Insurers prior to Nationalisation

Year	Lapse rate at mean duration 0	1	2	3	Total (0—3)
1951	7·3	27·0	9·3	1·6	45·2
1952	7·0	27·3	9·0	2·9	46·2
1953	6·8	28·3	9·8		
1954	5·1	21·3			
	Prudential				
1951	5	13	4	..	(22)
1952	6	15	4	..	(25)
1953	5	16	4		
1954	5	16			
	Sun Life				
1951	1	4	..	..	[illegible]
1952	2	4	..	..	[illegible]
1953	1		..	..	
1954	2	4			

10.8.2. The lapse rates for the Indian Business of Prudential and Sun Life are not complete since the rates for duration 3 are not given in the Year Book; though a proper comparison cannot therefore be made in the absence of full information, it can be seen that the lapse rates at other durations are considerably lower for foreign insurers transacting business in India than for the Indian Insurers, and for the Corporation. For instance, at duration 1, the lapse rate of Sun Life was only 4 per cent, and that of Prudential 15 per cent as against 21·28 per cent for all Indian Insurers before nationalisation, and 18·23 per cent for the Corporation.

Lapse Experience of Foreign Insurers:

10.9.1. In other countries the definition of a lapse may not be exactly similar to what is considered as lapse in India.

10.9.2. From the published statistics of foreign companies, it has not been possible for us to find out either the overall lapse rate or the lapse rate according to mean duration of any of the foreign companies. It is, therefore, not possible to compare the lapse experience of the L.I.C. with that of foreign companies.

10.9.3. As the L.I.C. has observed, "some of the factors affecting the lapse experience are the insurance consciousness of the general public, the

savings capacity, the recruitment, training, responsibilities and remuneration of agents, and the pattern of income of policyholders. In view of the differences in impact of some or all of the above factors, lapse experience of the Corporation is not strictly comparable with the experience of insurers in foreign countries."

10.9.4. However, the following information about lapses in U.S.A. and Canada may be of interest.

U.S.A.:

10.9.5. In Bests' Life Insurance Reports of U.S. Companies, figures are published of a different 'lapse rate' calculated "on the basis of amounts of insurance terminated, except for death claims and matured endowments, to insurance exposures at the beginning of the year loaded for double exposure for prior year new business written". The definition of lapse here includes surrenders. Moreover, in deriving the lapse rate; it is assumed that the rate of lapse in the first year of insurance is double the rate in subsequent years. So these rates of lapses are not strictly comparable with the lapse rates calculated by the L.I.C. The "Lapse Rates" as calculated on the above basis, for some of the U.S. Companies for the years 1964 and 1965 are given below :—

Name of the Company	Bests' "Lapse Rates"(%) for	
	1964	1965
Acacia Mutual	5·4	5·2
All State Life	16·3	17·5
American National	13·0	14·1
Canada Life	6·0	7·0
Lincoln National	10·3	11·2
Metropolitan	5·3	5·6
New England Mutual	4·9	5·1
New York Life	5·2	5·2
North Western Mutual	2·5	25
Prudential of America	5·4	5·7
Sunlife of Canada	5·3	5·2

Canada:

10.9.6. From the report of the Superintendent of Insurance of Canada for the year 1965, the following overall net lapse ratios (on the basis of Sum Assured) for some of the big Canadian Insurers were obtained. (The report does not give an exact definition of lapses that has been used as the basis of the report).

Name of the Company	Overall "Lapse" Rate (%)
Sun Life	2·1
Manufacturers Life	4·1
London Life	1·9
Canada Life	2·8

Reduction of Lapses

10.10.1. As we have already pointed out, lapses retard the growth of the renewal premium of an insurer. The Chief Actuary of the Corporation has drawn attention to this danger in a note dated 20th October, 1962. He said "Lapsation of such a magnitude constitutes not only a great loss to the Corporation but also to the policy-holders and the Nation as a whole. The dis-savings involved therein act as a brake on the acceleration of the savings movement which is so essential for national economy of the developing country like ours". In a letter to the Corporation, the Finance Ministry expressed the view that "the policies which turn out to be infructuous within a few months or within 3 years of their being issued are a waste to the individual, the L.I.C. and the Society as a whole. The infructuous policies act as a disincentive to savings, tend to make people averse to taking insurance policies and detract considerably from the good reputation which the L.I.C. may otherwise acquire." The Finance Minister put the matter succinctly when he wrote to the L.I.C. on the 9th of August 1962 that 'Policies which lapse within a year or even three years of issue bring little gain to the L.I.C.... I do not think that in its pursuit of larger amounts of new business the L.I.C. should at all shut its eyes to non-genuine policies issued at the instance" of some members of its field organisation "who are bent on quick profit at any cost."

10.10.2. Lapses cannot be minimised unless all ranks of the management and the field organisation look upon lapses as extremely undesirable, particularly in a nationalised undertaking. That this is not the case today is evident from a letter that the Chairman of the Corporation wrote to the Finance Ministry, on the 20th of December, 1962. "I am fully conscious of the fact that a high lapse rate is taken for granted by some of the agents, development officers and officers of the Corporation". This attitude of indifference towards lapses must be replaced by an attitude of positive disfavour. In the same letter, the Chairman went on to say: "It would not be practicable to reorient the outlook of such agents and employees of the Corporation in a short time." We hope that by now, it must have been sufficiently reoriented. For long term contracts like those of life insurance, a certain extent of lapse is probably inevitable, since it is not possible to foresee all the developments that may take place in the future after the contract has been entered into. However, the chances of such genuine lapses occurring at early duration must be taken as small, if the policyholder has taken the policy after being fully convinced of its utility. It is, therefore, necessary to make every effort to reduce lapses, to the barest minimum, especially lapses during the first year.

10.10.3. The Estimates Committee (1960-61) (p. 27) found in 1961 that the lapse rates of the Corporation were improving, and suggested that an even spread of business throughout the year may further reduce the lapses. They expressed the hope that every effort would be made to bring lapses down to the level of foreign Insurers.

10.10.4. The Public Undertakings Committee examined the working of the L.I.C. during 1964-65 and found that the lapse rates were on the increase. They were quite concerned at the rise and remarked as follows (p. 22).

> "The Committee are left with the impression that although the Corporation is enthusiastic about writing new business, no sufficient follow-up work is being done. They, therefore, suggested that the Corporation should take urgent steps not only to arrest further rise in the lapse ratio but also to bring it down to a lower level. In this connection, the Committee feels that there is also a case for providing suitable incentives to the agents for bringing in sound business."

10.10.5. We have been informed that the Corporation has taken the following steps to reduce lapses to the minimum :—

(1) The promotion of Development Officers to the higher cadre and their confirmation in this cadre has been made subject to the condition that lapses in the new business introduced by them are not unsatisfactory.

(2) At the training course that the Corporation conducts for Development Officers and Agents, stress is laid on proper salesmanship and study of the needs as well as means of the proponents with the hope that this would eliminate or reduce the lapsing of policies attributable to wrong or indifferent salesmanship.

(3) To provide adequate facilities for the collection of premiums in rural areas where banking facilities do not exists, collection arrangements have been made with the Post Offices in the rural areas of Andhra Pradesh, Kerala, Madras, Mysore, Orissa, Rajasthan, Bihar and Uttar Pradesh.

(4) In cases with the monthly mode of payment of premium, three monthly instalments of the premium or the amount of minimum advance deposit, whichever is higher is required to accompany the proposal. Exceptions are made only in cases where the premiums are payable under the Salary Savings Scheme or through a Co-operative Society or by the Trustees of a Staff Provident Fund, since in such cases the payment of premiums is automatic.

(5) In the case of policies under Pure Endownment and Deferred Annuity Plans the maximum premium paying period has been limited to 25 years with a view to preventing the annual premium from becoming too small, thus attracting non-genuine insurance, purely out of the desire to avail of income-tax concessions.

(6) In the case of Pure Endownment Children's Deferred, Deferred Annuity and Convertible Team Plans, the monthly and quarterly modes of payment of premium have now been abolished.

(7) A fresh proposal is not accepted from anyone who has allowed any of his previous policies to lapse during the preceding three years unless the lapsed policy or policies are first revived.

(8) The scope of the Special Revival Scheme has been extended to cover policies that have remained in a lapsed condition for a period of three years (instead of the original two years), thus offering easier terms for reviving lapsed policies without paying heavy arrears of premium.

(9) Rules relating to alteration in the plans of assurance to suit the changed circumstances of the policyholder have been liberalised.

(10) Special facilities have been provided for reviving lapsed policies by the payment of premium arrears in instalments.

10.10.6. It is not possible for us to make any quantitative evaluations of the effectiveness of these steps taken by the L.I.C. However, since the lapse rates of LIC have not decreased substantially, the only possible conclusion that we can draw is that the steps so far taken have not sufficed to produce the desired results. On the other hand, there appears to be a tendency for the lapse rate to increase, at least in some divisions; the lapse rates of Calcutta and Jalpaiguri Divisions have increased considerably in recent years. This underlines the urgency of the problem, and we strongly feel that the L.I.C. should take adequate and more effective measures to reduce the lapse rates.

10.10.7. Since the cause-wise analysis of lapses (Para 10.4.1) has shown that a majority of lapses are due to financial difficulties, lapses can be reduced only if sufficient attention is paid at the proposal stage itself. *We, therefore, recommend that the Corporation should take steps to tighten the present procedure for verifying and ensuring that the insurance carried by the party (including the proposal that is being considered) is commensurate with his income and status, and that there is reasonable chance of the policy being continued.*

10.10.8. We understand that agents and development officers (and probably ABMs and BMs) drive special advantages by showing increase in business irrespective of quality and are therefore open to the temptation of indulging in high pressure selling. We, therefore, consider it necessary to introduce a set of disincentives that dissuade development personnel from introducing business of doubtful quality.

Agents and Development Officers :

10.10.9. A note prepared by the Central Office of the Corporation refers to the commission that is paid to Agents, and says: "The other (method to reduce lapses) is to spread out the commission to agents. In

fact, spreading of commission to agents is contemplated even in a highly insurance-minded nation as the United States. Unless drastic actions are taken practically the problem will remain much the same." We have considered this problem in considerable detail in the Chapter on 'Agents'. We have referred to the practice of rebating and have recommended the re-adjustment of commissions payable to agents. We have also recommended that the new business bonus commission should be based on the increase in the total premium brought in by an Agent during the year, adjusted for claims, etc., and that the increase should be a major factor that is taken into account in the overall assessment of the Development Officers' performance.

Branch Managers and Asstt. Branch Managers:

10.10.10. The Corporation should give due consideration to the incidence of lapses in the business done by the Officers of other Development Personnel like the Branch Managers and Assistant Branch Managers. *We therefore, recommend that*:

(i) In considering the promotion of Branch Managers and Assistant Branch Managers (Development) lapses from the business under their organisation should also be taken into account.

(ii) In giving merit (cash) awards to Branch Managers and Assistant Branch Managers (Development) the net increase in the total premium, after the necessary adjustments should be taken into account.

(iii) Wherever new business figures are published for any agent, Development Officer, Branch or Divisional Office, the lapse rate of the concerned individual or office for the latest available year should also be mentioned so that a measure of the quality of the business done will also be available for correlation with the volume of the business done.

(iv) We have found that the lack of facilities to pay insurance premiums is one of the causes of lapses in rural areas. At present, in some places the Corporation has made arrangements to collect premiums through post offices. The charges for collection through post offices are however very high as compared to those for collections through banks. While the postal department charges 50 paise per collection, the bank charges 6 paise per Rs. 100/- of the money collected. On the basis of the modewise distribution referred to in para 10.3.2 for the rural sub-division, the average number of collections per annum per policy-holder is about 3; *i.e.* the cost of collection of the premium through post offices in this case would be Rs. 1.50 per annum. The yearly premium for a rural policy-holder must be less than that for his urban counterpart; but even assuming that the two are the same, one can be certain that it is not more than Rs. 170. The bank collection charges for this amount will be about 10 paise. The post office

charges are thus nearly 15 times the bank charges. It is, therefore, necessary to explore the possibility of availing of bank facilities in the maximum number of places where the Corporation does not have its own offices. We may refer here to the encouragement that is being given to commercial banks to develop their activities in rural areas as a consequence of the decision to promote the social control of credit. We understand that many commercial banks are now opening branches in rural areas. *We, therefore, recommend that the L.I.C. should authorise all such commercial banks as have branches at places where the Corporation has no offices of its own, to collect life insurance premia.*

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CHAPTER XI

Other Major Heads of Expenses

SECTION 1—TRAVELLING EXPENSES

11.1.1. The expenses of management under "Travelling Expenses" include the following items :—

(1) Travelling Expenses of Development Officers.

(2) Travelling Expenses of Class I Officers on the Development side, like Asstt. Branch Manager (Development), Branch Manager, Senior Branch Manager, Asstt. Divil. Manager (Dev).

(3) Travelling Expenses of Class I Officers (other than those included in Item (2) above).

(4) Travelling Expenses of Members of the Corporation, Members of the Zonal Advisory Committee, the Policy-holders Council and other Committees constituted under the L.I.C. Act.

(5) Travelling Expenses on Transfer of "Personnel" of the Corporation.

(6) Travelling Expenses other than those covered under Items (1) to (5) above.

(7) Motor Car Expenses, under Scheme I, II & III of the Corporation.

11.1.2. The Travelling Expenses incurred under items (1) & (2) and the Motor Car Expenses under item (7), in so far as they relate to the Development Officers and Class I Officers on the Development side, relate to the New Business activity of the Corporation, and therefore require consideration in relation to the First Year Premium Income. Travelling Expenses under other items and the Motor Car Expenses incurred on behalf of officers other than those on the Development side need to be examined with a view to relating them to the relevant activity of the Corporation. But since particulars under Items (1) to (6) are not separately available, we could not make a separate study fo these items. However, for the purpose of our study, we have related the travelling expenses under all these items to the First Year Premium Income, on the assumption that a fairly large part of this expenditure must have been incurred for the purpose of New Business. An examination made for the year 1966-67 disclosed that about 87 per cent of the Travelling Expenses of the Corporation related to New Business activities. Our assumption therefore, cannot be far off the mark.

11.1.3. New Business cost of the Corporation for Travelling Expenses on the basis of the assumption that we have made, its trend expressed as indices with reference to the experience for the year 1958, and the cost expressed as a percentage of the corresponding First Year Premium Income for the Corporation as a whole and different Zones are given in Appendices 25, 26(a) to 26(e). The indices disclose an increase since 1959. The comparative position of the Zones is given below :—

Travelling Expenses expressed as a percentage to the First Year Premium Income of the Zones.

Zone	1958 %	1967-68 %	Increase + Decrease(—)
Northern Zone	1·31	2·07	+0·76
Central Zone	2·09	3·22	+1·13
Eastern Zone	4.61	2·67	—1·94
Southern Zone	2·36	2·32	—0·04
Western Zone	0·65	1·06	+0·41

11.1.4. The characteristics disclosed by these figures are supported by the comparative position expressed as indices (base year 1958) of the growth of business, represented by the Number of Policies and Sum Assured in relation to the growth of the cost of "Travelling Expenses" of Development Officers and others given below for the 3 years ended 31st March, 1968 :—

	Indices No. of Policies			Indices of Sum Assured			Indices of Expenses (Travelling Expenses of Dev. Officers and others)		
	65-66	66-67	67-68	65-66	66-67	67-68	65-66	66-67	67-68
Corporation	167	151	153	233	225	246	207	228	236
Northern Zone	201	166	180	248	227	265	396	412	424
Central Zone	178	179	182	228	222	263	361	398	403
Eastern Zone	159	140	141	208	198	211	92	106	124
Southern Zone	152	141	137	235	234	241	214	247	246
Western Zone	178	157	163	253	239	272	421	449	423

11.1.5. The indices disclose that the cost in the Northern, Central and Western Zones have registered a higher increase than in the Southern Zone or for the Corporation as a whole. No comment can be made about the "Eastern Zone" in this respect since it appears that the figures of the expenses of travelling and conveyance allowance have been mixed up in the figures for 1958.

11.1.6. While the percentages of these expenses to the First Year Premium Income have generally registered increases for all the Divisions, a different trend is visible for some Divisions over the period 1958 to 1967-68 *i.g.*, Jalpaiguri Division in the Eastern Zone, Meerut Division in the Central Zone Bangalore, Hyderabad and Madurai Divisions in Southern Zone and the Bombay Division in Western Zone Appendices 26(a) to 26(e). The experience of the Divisions in the Eastern Zone is, however, subject to the defects that have already been referred to in the earlier paragraph.

1..1.7. Besides the Travelling Allowance allowed for tours on official work, officers eligible to maintain a vehicle, are allowed a conveyance allowance to meet the maintenance expenses and local running cost of the vehicles. Most of the Officers who maintain vehicles are on the Development side, and so conveyance expenses are mainly incurred for the development of business. It would, therefore, be relevant to combine "Conveyance Allowance" with "Travelling Expenses" for considering the per policy expenses on travelling. The cost, per policy, for the Zones have been given in Appendix 27. The figures in the Appendix disclose an increase, roughly eighty-seven per cent increase, from 1958 to 1967-68, for the Corporation as a whole. The Zones exhibit increases of varying degrees; Northern Zone being the highest (114 per cent) followed by the Western Zone (106 per cent), Southern Zone (92 per cent), Central Zone (66 per cent) and the Eastern Zone (65 per cent).

11.1.8. The increases referred to above can be better understood if the cost were compared with the First Year Premium Income. The following table attempts to give such a comparison :—

The cost of the "Travelling Expenses and Conveyance Allowance" expressed as a percentage of the First Year Premium Income

	1958		1967-68		
	Cost per Policy	% to First Year Premium Income	Cost per Policy	% to First Year Premium Income	% increase on 1958
	Rs.	Rs.	Rs.	Rs.	
Corporation	8.53	5.84	15.99	6.69	15
Northern Zone	10.07	5.22	21.53	7.72	48
Central Zone	10.77	7.23	17.88	9.31	29
Eastern Zone . . .	9.98	6.98	16.45	7.76	11
Southern Zone .	6.79	6.29	13.01	7.15	14
Western Zone . . .	6.49	3.57	13.38	5.09	43

11.1.9. Any inference drawn from the cost of "Travelling Expenses" indicated in this table will be even more realistic if we take into account the increase in the size of an average policy and premiums resulting from inflation and its effects on Railway fare, Daily Allowance, etc. Even after allowing for these factors, it will have to be admitted that the

increase in the cost of travelling has outstripped the growth of the average policy as revealed by the premium income. This suggests the need for a closer scrutiny and vigilance over this head of expenditure.

11.1.10. When studying the trend of the cost of "Travelling Expenses", the Committee's attention was drawn to th number of tours and transfers of "Personnel". While we concede that tours and transfers are necessary in the interest of the Corporation, stricter regulation of the tours and transfers is an essential part of the managerial control and vigilance at all tiers of the Corporation. We may here refer to the recommendations that we have made about the frequent transfers of Divisional Managers and other Officers in our Chapter on 'Personnel'. We feel that a review of the present rules for Travelling Allowance may also help to bring down the cost under this head.

Motor Car Expenses:

11.1.11. Motor Car expenses referred to in item (7), para 11.1.1. of this Chapter relate to the expenses on major repairs, insurance and the taxes paid on the vehicles. These very according to the type of the vehicle used by the Officers of the Corporation and the nature of the Scheme under which they obtained it. The three Schemes referred to are briefly described **below:**

Scheme I:

11.1.12. Motor Cars inherited by the Corporation in September, 1956 were made available to Officers of the cadre of ADM(D) and above, on the Development side and D.Z.Ms. and above on the Administrative side. These cars are owned and maintained by the Corporation. An allowance varying between Rs. 200/- p.m. and Rs. 225/- p.m. was granted subject to a deduction of Rs. 75/- to allow for the mileage on personal purposes. This Scheme is no longer in force.

Scheme II:

11.1.13. Under this Scheme, ABMs(Dev.), BMs., ADMs(Dev) D-Ms, SDMs and DZMs. and Officers in grades above these are granted an interest free loan for the purchase of a motor car, such loans being recovered in 96 equal monthly instalments. The allowance for running expenses under this Scheme varies from Rs. 210/- p.m. to Rs. 275/- p.m. according to the status of the Officer and area in which the car is used. No new purchases under this Scheme are allowed from 1.1.1968 for Officers eligible for Scheme III. Development Officers with a basic pay of Rs. 405/- per month are eligible for car facilities under this Scheme. The allowances for running these cars vary from Rs. 210 to Rs. 260 according to the area in which the Development Officer works.

Scheme III:

11.1.14. This was introduced from 1.1.1968 for a period of 2 years in the first instance, and is applicable to Development Officials viz. ABMs(D), B.M. and A.D.M(D). Under this Scheme the car is jointly owned by the officer and the Corporation till the full purchase price of the car advanced by the Corporation is repaid in 96 equal monthly

instalments. Twenty per cent of the fixed, maintenance and operating cost is borne by the Officers to cover the use of the Car for personal purposes. The allowance under this Scheme is given under 4 heads:

(i) Fixed charges comprising the element of repayment of loan and a fixed allowance for cleaner, servicing, minor repairs and replacements, being given on a monthly basis;

(ii) Reimbursement in respect of replacement of tyres and batteries depending upon actuals and subject to certain ceilings;

(iii) Reimbursement in respect of major repairs depending on actuals and subject to certain annual ceilings;

(iv) Mileage allowance, which varies according to the running of the car, given on a monthly basis;

The Scheme is intended to work on a no profit no loss basis. The benefits, therefore, vary according to the variations in the price of cars, repairs and replacement charges and the age of the cars and the running cost. The administration of the Scheme is complex, and therefore, the cost of administering it is higher than that of other Schemes solely because the mileage allowance is linked with the actual running of the car, repairs cots, etc. and the maintenance of the records relating to them. The only favourable aspect of the Scheme seems to be that it may have a more favourable impact on the business production.

11.1.15. We find that the Scheme is too complicated, and requires a number of Records to be maintained and Returns to be furnished. It will, therefore, entail a great deal of administrative work. We are of the opinion that the benefits that the Corporation wants to give for Conveyance expenses should be given through a Scheme which does not involve high administrative costs. *We, therefore, recommend that Scheme III(1968) should not be renewed at the expiry of its terms of two years, and a more simple and easily workable formula should be evolved for conveyance facilities allowances to Development Officials.*

11.1.16. Separate figures are not available for the expenses incurred under this head (motor car expenses) by Development Personnel and others. However, as the number of vehicles used by the Development Officers, A.B.Ms(D), B.Ms, A.D.M(D) and D.Ms. far out-number the number used by others, it is assumed for the purpose of our study, that entire cost of motor car expenses could be related to the First Year Premium. On this assumption, the New Business cost under this head,

expressed as percentage of the corresponding First Year Premium Income, and its trend expressed as indices with reference to the experience for the year 1958 are given in Appendix 25. These disclose a steady increase since 1958. The comparative position of the Zones is given below:—

Motor Car Expenses expressed as a percentage to the First year Premium Income of Zone

Zone	Percentage to First Year Premium 1958 %	Percentage to First Year Premium 1967-68 %	Increase
Northern	0.43	0.98	0.55
Central	0.52	0.78	0.26
Eastern	0.21	0.77	0.56
Southern	0.34	0.90	0.56
Western	0.39	0.63	0.24

11.1.17. The characteristics disclosed by this table are also supported by the comparative position expressed as indices (Base Year 1958) of the growth of business, represented by the number of Policies and Sum Assured in relation to the growth of the cost of motor car expenses as given in the following Table:

	Indices of new Buisness						Indices of Expenses		
	Policies			Sum Assured					
	65-66	66-67	67-68	65-66	66-67	67-68	65-66	66-67	67-68
Northern Zone	201	166	180	248	227	265	513	533	607
Central Zone	178	179	181	228	222	263	354	444	394
Eastern Zone	159	140	142	208	198	211	641	661	791
Southern Zone	152	141	136	235	234	241	417	411	661
Western Zone	178	157	163	253	239	272	327	334	423
Corporation	167	151	153	233	225	246	416	443	542

11.1.18. These indices disclose that the expenses under Motor Car Expenses have shown the highest increase in the Eastern Zone, followed by the Southern, Northen and Western Zones. The rise in the case of the Central Zone is the least amongst all the Zones.

11.1.19. The percentages of these expenses to the First Year Premium Income have generally registered increase of varying degrees for all Divisions as shown in Appendices 28(a) to 28(e).

11.1.20. Any inference drawn from the trend of motor car expenses will be more meaningful if we take into account the increase in the size of an average policy and premiums resulting from the inflation that has affected the cost of petrol, repairs, spare parts, etc. Even after allowing for these factors, it must be admitted that the increase in motor car expenses has overstopped the growth of business. This will suggest the need for a closer scrutiny and vigilance over this item of expenditure.

Staff Cars and Jeeps:

11.1.21. According to the Accounts Procedure, maintenance expenses on staff cars and jeeps are also included in "motor car expenses under Scheme I" which has now been discontinued.

11.1.22. Staff Cars are maintained at the Central Office, Zonal Offices and the Divisional Offices of Bombay and Calcutta. Maintenance and Repairs of the staff cars and jeeps are charged to the account indicated above, while "Salary, etc. of drivers" and "overtime allowances" paid to drivers are debited to the Salaries Account.

11.1.23. The total expenses of Repairs and Maintenance of staff cars is the highest in the year 1966-67. Hence comparative particulars are given below only for the latest two years :—

Office	1966-67		1967-68	
	No. of Cars	Amount Rs.	No. of Cars	Amount Rs.
Central Office.	12	53,764	11	44,212
Delhi Zonal Office	4	30,001	4	21,128
Kanpur Zonal Office	4	12,283	4	10,281
Calcutta Zonal Office	4	20,989	4	25,442
Madras Zonal Office	4	7,372	3	9,253
Bombay Zonal Office	3	10,265	4	10,240
Calcutta Divisional Office	1	3,419	1	2,553
Bombay Divisional Office.	1	N. A.	1	3,675
		1,38,093		1,26,784

These maintenance and repair expenses form only 1.4 per cent and 1.2 per cent of total expenses on Travelling Expenses for the years 1966-67 and 1967-68 respectively.

11.1.24. Since 1958, Jeeps were used for the following purposes:

(1) To propagate the idea of Life Insurance particularly in the rural areas,

(2) To canvas new business,

(3) To render better service to the policyholders,

(4) To speed up premium collection, and

(5) To carry medical examiners to areas from where a good number of proposals are expected, and from where it will be difficult to take the prospects to a recognised medical examiner.

11.1.25. It was estimated that each jeep would bring about an increase of business to the tune of at least Rs. 20 lakhs in the Division. This, it was calculated, would result in a premium income of Rs. 80,000/-. On the basis of a maintenance expense of Rs. 5,500 per annum per Jeep, the cost of jeeps on New Business was estimated at about 7 per cent. It is not possible for us to make any statement on how far experience kept pace with these estimates. However, from the information available with the Central Office for 1961, the O & M Department compared the cost of the business secured with the use of jeeps by the Indore and Varanasi Divisional Offices and observed wide disparity in the costs of these two Divisional Offices. (Varanasi Divisional Office was at 1·6 per cent and the Indore Division at about 9 per cent).

11.1.26. Information about the use of jeeps during the calendar year 1965 in the Western Zone revealed that in most of the Divisions full use had not been made of the available jeeps. It was observed that out of 24 jeeps in 6 Divisions of the Western Zone, 8 were lying idle for want of repairs for periods varying between 5 to 9 months.

11.1.27. Thus we see that jeeps are not being put to effective use. If plans for developing business in the interior areas are not badly affected when jeeps remain idle for long periods it is reasonable to infer that reduced number of jeeps would serve the purpose of the Corporation.

11.1.28. Again, one of the reasons for providing jeeps was the desire to take medical examiners to villages. However, the Corporation has liberalised non-medical schemes. In view of this, a large number of proposals can now be completed without medical examination. To that extent the jeeps have now become superfluous.

11.1.29. Reduction in the expenditure on staff cars and jeeps can be achieved by reduction in numbers, and economical maintenance and use. We, therefore, recommend that an immediate study of the requirements of 'jeeps, and Staff cars' should be undertaken with a view to reducing the number of vehicles and ensuring their economic maintenance.

SECTION 2—MEDICAL FEES

11.2.1. From its inception, the Life Insurance Corporation introduced under certain plans insurance without medical examination on the lives of the male employees of the Government, and Quasi-Governmental and reputed Commercial and Industrial undertakings. The Sum Assured under such schemes, whether covered by one or more policies was not to exceed Rs. 3,000/-. These 'Non-Medical insurances which were in the

first instance available to 'Urban' areas were extended in 1960 to selected 'Rural' areas, and limit of Rs. 2,000/- was fixed for non-medical rural business. Subsequently it was extended to all areas. The changes effected position in that under 'Non-Medical' (Special) Policies, the maximum under these Schemes have been listed in the Appendix 29. The present sum assured for members of the Defence Forces upto age 45 (who are subjected to periodical medical check ups) and for select categories of Civilian Lives, upto age 30 is Rs. 10,000/-; the limit for other select Civilian Lives is Rs. 7.500. Under the 'Non-Medical' (General) Policies, the limit is Rs. 4,000.

11.2.2. Separate figures for the business under Non-Medical (Special) Policies and under Non-Medical (General) Policies for the years 1965-66 to 1967-68, given in Appendix 30, indicate that the Non-Medical (Special) Category accounts for the bulk of the business under 'Non-Medical' business. For the Corporation as a whole, Non-Medical (Special) business accounted for 71 per cent of the entire Non-Medical business in 1967-68. The corresponding percentages for the Northern and Central Zones was 81 per cent and that for other Zones was between 65 per cent and 69 per cent. This feature suggests that the bulk of the Non-Medical business is from Urban areas where there is a concentration of Government. Quasi-Gevernment and Commercial Institutions. It, therefore, seems clear that there is still considerable scope to tap 'Rural' areas for 'Non-Medical' business.

11.2.3. All Life Insurances other than those under 'Non-Medical' plans referred to in Paragraph 11.2.1 are subject to Medical examinations by Doctors on the approved list of the Corporation. The fees for these medical examinations, which are regulated by the sum proposed for insurance, are as follows:—

Sum Assured	Medical Fees
	Rs.
(a) Below Rs. 5,000/-	8
(b) Rs. 5,000/- and less than Rs. 10,000/-	12
(c) Rs. 10,000/- and above	16

If the sum proposed is large, and special reports including Electro Cardiograms and Teleroentgenograms are required for underwriting purposes, reports from two medical examiners are required at the cost of the proponents. In such cases, the proponents are reimbursed their expenses subject to a maximum of Rs. 4/- per 1000. provided such proposals, with or without modification, result in Policies.

11.2.4. The following table shows that the medical fees paid by the Corporation as a percentage of the first year premium income have been declining from 6·41 in 1959 to 2·77 per cent in 1967-68:

Year	Expenses (Rs. in lakhs)	% to F. Y. Premium
1958	85.51	6.26
1959	113.26	6.41
1960	118.37	5.90
1961	99.28	4.30
1962-63	104.60	3.41
1963-64	94.46	3.27
1964-65	95.78	3.26
1965-66	102.42	3.27
1966-67	92.14	2.88
1967-68	94.48	2.77

Even with a steady decline under this head, the New Business Cost Ratio for the Corporation has shown no reduction or only a negligible reduction. This leads one to infer that savings if any under this head, have been wiped out by other expenses contributing to 'New Business' Costs. The position is not different if we examine the statements of 'Medical Fees' given in Appendices 31(a) to 21(e) relating to the Zones and the Divisions under each Zone.

11.2.5. The cost of 'Medical Fees' per Policy of the Corporation, whether under 'Medical' or 'Non-Medical' Schemes, has declined from Rs. 10.09 in 1959 to Rs. 5.74 (1963-64). It has increased slightly during the subsequent years. This trend can be explained by the net effect of the increase in the limits for 'Non-Medical' Policies and the general trend observed in the average sum assured under Policies. The variations as between the Zones reflect their respective characteristics. A clear picture of these features can be seen in Appendix 32.

11.2.6. The cost of 'Medical Fees' per Policy attracting medical examination for the years 1961 to 1967-68 is indicated in Appendix 33. Both for the Corporation as a whole and for the Zones separately, the cost has shown an increasing tendency. The cost of 'Medical Fees' per policy, in 1967-68 has been Rs. 13.33, Rs. 12.62, Rs. 12.26, Rs. 11.85 and Rs. 11.59 for the Northern, Eastern, Central, Southern and Western Zones respectively. These figures reflect the trend of the average size of the policies.

11.2.7. Under the present system for approving medical examiners, the Corporation prescribes certain limits for each medical examiner, depending upon his qualification, experience, etc. Thus a proposal for

a sum exceeding the prescribed limit of a Medical Examiner has to go to two medical examiners. Generally, no single medical examiner is authorised to examine proponents whose proposals are for more than Rs. 50,000/-. When a sum proposed is more than Rs. 50,000/-, the proponent has to appear before two examiners. We have no evidence to conclude that two medical reports ensure a higher standard of accuracy than one report. It appears to us that there is a strong case for reviewing the present system. *We, therefore, recommend that the present authorised limits for medical examiners be reviewed and suitably revised with a view to eliminating the necessity for two medical reports except in very exceptional cases.*

11.2.8. During the last twenty years the general standard of public health as well as the mortality rate has improved. In view of this favourable factor, the Corporation can gradually increase the limits of non-medical business further and achieve a reduction in the cost of procuration. Recently, the Corporation investigated into the mortality experience of the lives assured (in India) under Non-Medical Schemes. It appears from the investigation that the mortality experienced by such lives does not, as a whole, compare unfavourably with the mortality experienced by assured lives subjected to medical examination. However, the Corporation feels that firm conclusions cannot be drawn till these findings are confirmed by the subsequent experience of a substantially long period.

11.2.9. It may be relevant to refer here to the non-medical limits in other countries. In the United Kingdom, Prudential Assurance issues policies without medical examination for the age upto 40 upto a sum assured of £.5000 while the Legal and General has non-medical limits of £.5000 upto age 50. The Sun Life of Canada has a non-medical limit of £.4000 upto age 35, and £.2500 between ages 36 to 45.

11.2.10. We are aware that there is an important difference in the conditions obtaining in the U.K. and India. In the U.K., under the national Health Scheme, every citizen is registered with one of the Doctors on the rolls of the N.H.S. On the request of the British Life Offices Association, the National Health Service authorities have advised the Doctors under them to give a resume of the record that they have about the health history of any applicant for whom insurers want such information. Such a report from the personal Doctor of proponent is very helpful to the insurer. In some respects it is even more helpful than an *ad hoc* medical report; the medical report at best gives information of the state of health of the individual at a particular point of time whereas the proponent's personal doctor's statement gives in details the person's medical history from the time of registration with the N.H.S., and information about the illnesses and diseases he had had, the treatment given and the subsequent condition. The utility of these reports has enabled insurers in the U.K. to dispense with medical examination at the time of proposal upto much higher limits. In India, insurers do not have the advantage of any report of this kind. In fact most of the applicants for insurance simply say that they do not have any usual medical attendant.

11.2.11 An examination of the impact of non-medical business on the Renewal Expense Ratio has shown that the percentage reduction in renewal expense ratio resulting from transacting non-medical business increased

from ·48 in 1961 to ·56 in 1963-64, and thereafter decreased to ·38 in 1964-65 and finally to ·33 in 1966-67. The decrease in 1964-65 over 1963-64 may be due to increase in average sum assured as well as changes in the distribution of policies by sum assured *viz.,* fall in the percentage of policies below Rs. 3,000/- and increase in the group Rs. 5,000/- to Rs. 10,000/-.

11.2.12. If medical examination had been totally dispensed with, there might have been a saving of Rs. 94 lakhs in the year 1967-68. This may have had the effect of reducing the Renewal Expense Ratio by about ·61%. We, however, realise that it may neither be desirable nor practicable to completely eliminate medical examination or raise the limit very substantially soon after the upward revision effected last in 1966. The risk of fraud that one runs in fixing a high limit of exemption cannot be ignored in deciding this issue. After carefully considering these aspects, and in view of the finding of the Corporation about the mortality experience of non-medical lives referred to about, we are of the opinion that an immediate small upward revision of the non-medical limit is feasible. *We, therefore, recommend that the limit under Non-Medical (General) Scheme should be increased to Rs. 5,000/-, the limit under Non-Medical (Special) for Officers upto age 45 in the Defence Forces in A-1 Medical Category be increased to Rs. 20,000/- and the limit for others should be raised to Rs. 10,000/- after taking into consideration all the previous policies in all the three categories referred to.*

CHAPTER XII

MINOR ITEMS OF EXPENSES OF MANAGEMENT

SECTION 1—GENERAL CONSIDERATIONS

12.1.1. Expenses incurred by the Life Insurance Corporation under the following heads of account have been brought under the title "Minor Heads of Expenses" for the purpose of our study:

(a) Printing and Stationery

(b) Postage and Telegrams and Receipt Stamps

(c) Rents for offices

(d) Tabulating Machines Rental and Maintenance

(e) Electronic Data Processing System

(f) Publicity Expenses

(g) Telephone charges and

(h) Staff Medical, Recreational and other expenses.

These items have been chosen for our study on the ground that each of the items either acounts for annual expenditure of about one crore of rupees, or has special features.

12.1.2. A common feature of these items of expenses is their vulnerability to variations from year to year depending upon the expension of business and changes in the administrative practices and policies of the Corporation. Further, none of the items appears large enough as compared with the premium income or total expenses of management; the quantum under each item is so small that it gives an impression that even if efforts were made towards economy, no substantial savings would result. A general disinclination to consider, and implement, any economy measures is, therefore, likely to persist in the minds of those in authority. Moreover, the expanding business of the Corporation has in fact showed a declining trend in the proportion of these expenses to both the premium income and the total expenses, thus affording scope for a sense of complacency and a feeling that those expenses at the present level are unavoidable and the administrative cost involved in considering and implementing any measures of economy under these heads of expenses may not be commensurate with the results. These very features would suggest that, in an expanding and gigantic institution like the Life Insurance Corporation with many administrative tiers wedded to time-honoured procedures and manuals, there is always room to avoid the extravagance and wastage that arise from a general apathy or indifference to measures of economy and control of expenses under relatively insignificant heads. In general terms, *we therefore*

recommend that there should be constant vigilance and control at appropriate levels to avoid extravagance and wastage; to remove duplication or multiplication of work and to scrutinise all activities (and services) involving one or more minor heads of expenses, to ensure maximum economy and utility.

(Note: As the above recommendation is applicable to all the items under this Chapter, we are not repeating it under each item. Only specific recommendations are being made for each item.)

12.1.3. As has already been observed, the the proportion of expenses under the Minor Heads to the Total Expenses of the Corporation shows, as a result of the expansion of business, a declining trend. This can be seen from the Appendix 34. A similar feature can be observed in respect of the Zones from Appendices 35 to 40. This trend of the percentage of individual items of expense to the total expenses of the Corporation should not make one complacent, since expenses on individual items depend in some cases on the number of policies, in some cases on the number of employees and in other cases on a combination of these and other factors (e.g. distribution of business by mode of payment of premium).

12.1.4. With this general background, we shall proceed to examine the individual items of expenses under 'Minor Heads'.

SECTION 2—PRINTING AND STATIONERY

12.2.1. Expenses under this head of account include the following:

(1) Printed forms and books
(2) Stationery
(3) Printing of saleable publicity material (net cost)
(4) Printing of other publicity material (net cost)
(5) Printing of saleable development material (net cost)
(6) Adrema Plates
(7) IBM and ICT Cards

12.2.2. The amounts of expenses that the Corporation incurred for "Printing and Stationery" in the various years are given below:

Year	Rs. in lakhs
1958	59·53
1959	60·76
1960	66·14
1961	76·80
1962-63	109·80
1963-64	90·85
1964-65	84·43
1965-66	86·62
1966-67	90·48
1967-68	98·56

12.2.3. From the Appendices 41 (a) to 41 (e) which show the expenses under this head for each Zone and Division, it may be seen that though the expenses of each Zone as a percentage of the corresponding premium income have shown a declining trend between 1958 and 1967-68, the fall in the different Zones has not been even; in the case of the Northern, Central and Western Zones, the fall has been eratic during certain periods. In some Divisions the percentage of expenses to the total premium has shown an increase in the same period. In Kanpur, Meerut, Jabalpur, Calcutta, Cuttack, Muzaffarpur, and all Division of the Western Zone—except Ahmedabad and Surat—the percentages for 1967-68 have been higher than those for 1958. There is one factor which vitiates comparisons of the expenses of the Divisions over these years. It can be observed [Appendix 41 (f)] that the expenses of Zonal Offices under this head were heavy in the first few years. Thereafter, they came down sharply in all the Zonal Offices. This was due to the fact that in the initial years Zonal Offices (which undertake printing of a large number of forms like policies, proposals, etc.) were not allocating expenses to the various Divisions. The trend of expenses over the years did not, therefore, reveal a correct picture. In the absence of separate figures for these expenses, it is difficult to draw definite conclusions about the different Divisions or the Zones.

12.2.4. The basic item in the expenses relating to "Printing and Stationery" is the cost of paper, the price of which was controlled till May 1968. The price of paper has not risen during the period. The higher expenses under this head can therefore be attributed to the cost of "Printing" and the demand for more printed material to meet the increasing volume of business. Separate figures are not available for printing costs. It is not, therefore, possible to study the rise in expenses due to this factor. Further, the cost of the I.B.M. and I.C.T. Cards have not been maintained separately. It would be useful if separate figures of the cost of these items as well as the standard forms etc. which are required for machine statements are readily available. Similarly, the record of the expenses incurred for the forms and books required for the New Business Department, the P.H.S. Department etc., should also be available to facilitate the detection wastages and help in the proper allocation of expenses between new business and renewal business.

12.2.5. The following table gives the average annual cost of "Printing and Stationery" per policy in force for all the Zones as well as for the Corporation.

Year	Northern Zone	Central Zone	Eastern Zone	Southern Zone	Western Zone	Corporation
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1959 . .	1·07	1·49	0·97	1·00	0·62	0·92
1960 . .	0·82	1·51	0·91	0·99	0·63	0·90
1961 . .	1·03	1.10	0·97	1·00	0·70	0·94
1962-63 . .	1·09	1·49	1·11	1·12	0·92	1·21
1963-64 .	0·79	0·86	0·89	0·81	0·71	0·92
1964-65 .	0·77	0·90	0·83	0·58	0·78	0·80
1965-66 .	0·74	0·94	0·71	0·61	0·70	0·77
1966-67 .	0·78	0·60	0·80	0·61	0·69	0·77
1967-68 .	0·77	0.66	0·83	0·63	0·69	0·79

Since the size of an average policy has increased since 1959, the average cost of "Printing and Stationery" as a percentage of the average premium per policy has become more meaningful as may be seen from the following table:

	1959 % to premium income	1967-68 % to premium income
Corporation	0·72	0·47
Northern	0·69	0·378
Central	0·82	0·37
Eastern	0·80	0.5
Southern	0·93	04·8
Western	0·48	0·33

12.2.6. The head of account "Printing and Stationery" include the net expenses on "Diaries, Calendars, Leaflets, Brochures, House Magazines", etc. This method of accounting does not disclose the net cost of each individual item since some of the items are saleable material, and some others are publicity and propaganda material. This head of expenses also includes items like "Adrema Plates", "IBM cards etc." which should go to the expenses of "Machine Department".

12.2.7. Apart from the general vigilance that we have recommended in paragraph 2 of Section I, we would like that the requirements of each Department in every office are related to the number of proposals, number of policies and/or the strength of staff. For example, the quantity of forms and stationery estimated to be consumed during the year in respect of routine and repetitive jobs like premium receipts, printing and commission billing etc. could be checked up periodically with the quantity actually consumed to determine the volume of wastage, and to correct any wasteful trends that may be detected.

12.2.8. One item of economy that can be suggested relates to the issue of Bonus Intimation Cards. At the present level of cost of paper and envelopes, the estimated expenses for the cards alone will be about Rs. 2½ lakhs for every crore of policies. It appears to us that these cards are not essential and their discontinuance can effect some economy. *We therefore recommend that the practice of sending Bonus Intimation Cards may be discontinued.*

12.2.9. We have been informed that there are many reduntant "forms" and returns used for inter office communication. We have also been told that there is considerable scope for streamlining these forms and returns used by the different Departments. In his address to the Zonal

Managers' Conference on the 24th July 1968, the Chairman of the Corporation observed as follows:

> "We are getting a lot of returns and data which are either not really required or are not properly utilised. All this requires to be examined. There is great deal of waste in the use of stationery".

The report on the inspection of the Central Office in 1967-68 has brought out the fact that some statements received in the various Departments are not being put to any use. The following items have been cited as illustrations:—

I. *Accounts Department*:

1. "Quarterly statements of claims outstanding" (causewise etc.)

2. "Statement of Deposits" (Proposals and policies) (Monthly).

II. *Inspection Co-ordination (Claims) Department*:

> "Quarterly statements regarding claims under investigation and Half yearly statements regarding claims repudiated received in this Department from the Actuarial Department of the Central Office".

We have been informed by one of the Managing Directors that a study conducted by the Corporation revealed that about 50 per cent of the forms sent by Branch Offices to Divisional Offices could be dispensed with, and that in the case of the forms that go from the Divisional Offices to the Zonal Offices, in the P.H.S., New Business and Development Departments about 40 per cent could be dispensed with. (This study does not cover the returns from the Zonal Offices to the Central Office). *We therefore recommend that the necessity for the different statements and forms prepared and transmitted from one office of the Corporation to another be examined by the Organisation and Methods Department, with a view to bringing their number to the minimum, and avoiding multiplicity and redundancy*.

12.2.10. It has been suggested to the Committee that the cost of printing could be further reduced if the L.I.C. had its own Printing Press. The L.I.C. Act [Section 6(2)] provides for this possibility. It may be useful here to refer to the observations that the Study Team of L.I.C. under T.C.M. Programme made in 1960.

> "The Team feels it desirable to investigate into the possibility of having a Printing Press of our own. The Team understands that a preliminary study of this problem was made sometime back. Considering, however, the amounts now being spent under the head of printing and further substantial increase in expenditure that can be expected under this head with the increase in business, the Team feels it desirable that a more detailed study of the economies of the proposal of having our own printing press is undertaken immediately."

The L.I.C. has not examined this suggestion in any detail. *We, therefore, recommend that the Corporation should examine the feasibility of having a printing press of its own with a view to effecting economies in the cost of printing.*

SECTION 3—POSTAGE, TELEGRAMS AND RECEIPT STAMPS:

12.3.1. Expenses under this head of account pertain to the following :—

1. Postage Expenses
2. Telegrams
3. Money Order Charges
4. Telex Charges, and
5. Receipt Stamps.

12.3.2. The expenses under this head for the years 1958-68 are listed below:—

Year	Amount (*Rs. in lakhs*)
1958	57.60
1959	64.89
1960	69.81
1961	77.94
1962-63	110.08
1963-64	99.49
1964-65	102.08
1965-66	101.33
1966-67	104.19
1967-68	105.01

Statements under this head of account for all the Zones and the Divisions are given in Appendices 42(a) to 42(f). With the increase in premium income year after year, these expenses as a percentage of premium income have shown a declining trend, even though there are wide disparities in the percentages of the different Zones and Divisions. These expenses will to some extent depend on the availability of facilities for the local delivery of notices, letters, etc. This might explain the favourable feature observed in the Western Zone, since the bulk of the business in force in this Zone is in the City of Bombay.

12.3.3. The following table gives the average annual cost per policy in force, for all the Zones as well as for the Corporation.

Year	Northern Zone	Central Zone	Eastern Zone	Southern Zone	Western Zone	Corporation
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1959 . .	1·21	2·40	0·83	1·32	0·65	0·98
1960 . .	1·16	2·04	0·79	1 17	0·65	0·95
1961 . .	1·17	1·71	0·78	1·15	0·67	0·96
1962-63 .	1·42	1·84	0·98	1·41	0·92	1·22
1963-64 .	1·17	1·37	0·81	1·12	0·70	1·00
1964-65 .	1·11	1.19	0·82	1·01	0·79	0·97
1965-66 .	1·06	1·08	0·77	0·96	0.73	0.90
1966-67 .	1·02	0·96	0·74	0·91	0·73	0·88
1967-68 .	0·97	0·94	0·69	0·86	0·71	0·84

12.3.4. Since the size of an average policy has increased since 1959, the average cost of "Postage-Telegrams" as a percentage of the average premium has become more meaningful as may be seen from the following table:

	1959 % to premium income	1967-68 % to premium income
Corporation	0·76	0·49
Northern Zone	0·78	0·47
Central Zone	1·32	0·55
Eastern Zone	0·69	0·47
Southern Zone	1·23	0·59
Western Zone	0·51	0·39

For the year 1967-68 the percentage cost of the Southern Zone and the Central Zone are higher (even as in 1959) than the percentage cost for other Zones, while that of the Western Zone is the lowest. This is again explained by the fact that there are Centralised Cash Collection Centres functioning in cities like Delhi, Bombay and Calcutta in the Northern, Western and Eastern Zones respectively, as against the larger quantum of rural business done in the Central and Southern Zones.

12.3.5. The incidence of postage expenses is dependent upon the postal rates in force from time to time, and the tempo of the Corporation's activities. Postal rates have increased on the average by about 20 per cent since 1958. Assuming, therefore, that the business in force of the Corporation has remained at the same level as in 1958, the expenses must have been higher by about Rs. 11 lakhs at the rates in force in 1967. With the increase in New Business and the Business in force, the expenses under this head of account have risen further. In view of the fresh imports levied on postal rates by the 1968 Budget, the expenses for the current and subsequent years will be much higher. All available areas of economy in correspondence, circulars etc. have therefore to be explored for keeping this cost under control.

12.36. Apart from exercising the general vigilance that we have recommended in paragraph 2 of Section I, the Corporation can consider the discontinuance of certain notices that hardly serve any purpose to the policyholders or the Corporation. The Corporation can also take steps to ensure effective coordination between the various Departments in each Office. That such a co-ordination is absent at present will be evident from the observations that the Chairman of the Corporation made at the Zonal Managers' Conference on 24th July, 1968. He said that "he had seen 10 to 15 letters going separately from a Divisional Office to its controlling Zonal Office". With proper co-ordination and planning, wasteful expenditure of this type can certainly be avoided. *We, therefore, recommend that the Corporation should take administrative measures to ensure co-ordination between the various departments of its offices and to avoid wasteful postage expenditure arising from letters sent by the departments of the same office on the same day to subordinate and controlling Offices.*

12.3.7. Some of the witnesses who appeared before us suggested (as in the case of "Printing and Stationery") that the practice of sending bonus intimation cards may be dispensed with. If our recommendation in this regard is acted upon, there will be a corresponding saving under "Postages" too of the order of about Rs. 14 lakhs. Another suggestion that has been made to us is that the first default notice may be discontinued; thereby effecting a saving of about Rs. 25 lakhs in postage expenses (assuming that the copies of the Default Notices are sent to Agents as provided for in the Manual). *We, therefore, recommend that the Corporation may discontinue the practice of sending first Default Notices to the Policy-holders.*

12.3.8. Another suggestion that we have received is that premium notices which are now being sent by book post can be printed on post cards. Assuming that 240 lakhs notices are sent (on the basis that paid-up policies and monthly and S.S. Policies are of the order of 15 per cent each of the total of 122 lakhs of policies in force, and 3 notices are sent for each policy), the saving in postage at the rate of 5 P will amount to Rs. 12 lakhs. *We, therefore, recommend that premium notices which are now being sent book post may be printed on post cards if there are no technical difficulties in printing these notices on cards.*

12.3.9. According to the present practice, cheques in payment of claims, surrenders and loans as also other cheques for amount exceeding R. 500/- are sent by registered post. All other cheques are sent under certificate of

posting. *We recommend that the Corporation should encourage the practice of crossing its cheques "Accounts Payee" wherever possible—particularly to agnts and medical examiners—so that the cheques can be despatched by ordinary post. We further recommend that the practice of obtaining certificates of posting in respect of cheques for amount below Rs. 500/- may be discontinued as it does not appear to serve any useful purpose when view against the cost involved.*

12.3.10. It would be difficult to recommend specific measures of control for the use of telegrams and telex messages, except a sense of economy at all levels.

Receipt Stamps:

12.3.11. The expenses under the above head of account for the years 1958 to 1967-68 have been as follows:

Year	Amount (in thousands)
1958	5,43
1959	7,82
1960	8,56
1961	9,60
1962-63	13,94
1963-64	11,90
1964-65	12,91
1965-66	13,53
1966-67	14,10
1967-68	14,58

12.3.12. These expenses are dependent on the volume of receipts issued for amounts of Rs. 20/- or more and they have to be incurred under the provisions of law. However, some ways of reducing the expenses under this head can be considered. Under Sections 3 and 9 of the Indian Stamp Act 1899, the Government and cooperative societies have been exempted from the payment of stamp duty in respect of receipts issued by them. The L.I.C. is a public Corporation established with a social objective. In our opinion, there is a good case for exempting the L.I.C. from paying stamp duty as has already been done in the case of co-operative societies. *We, therefore, recommend that the Government may consider a suitable amendment to the Indian Stamp Act to grant exemption to the L.I.C. from paying stamp duty on the receipts issued by it.*

Section 4—Rents

12.4.1. Expenses on Rents are shown by the Corporation under the following two separate heads:—

(a) Rents for offices belonging to and occupied by the Corporation;

(b) Rents of other offices occupied by the Corporation.

It would be convenient to study both these items together to know the trend of these expenses. The expenses under (b) include rates and taxes of offices occupied by the Corporation on a rental basis.

12.4.2. Expenses under the above heads of account for the Corporation as a whole have been as follows :—

Year	Rent (a) Rs. (in thousands)	Expenses under (b) (Rs	Total (a+b) Rs. (in thousads)
1958	24,94	15,25	40,19
1959	28,89	16,40	45,29
1960	35,94	17,80	53,74
1961	38,40	20,19	58,59
1962-63	52,65	30,97	83,62
1963-64	48,45	27,17	75,62
1964-65	61,61	29,41	91,02
1965-66	67,49	29,89	97,38
1966-67	72,47	31,33	103,80
1967-68	84,24	31,76	116,00

We notice that expense on the rent for offices belonging to and occupied by the Corporation *i.e.,* under (a) have grown at a faster rate than those for offices occupied by the Corporation on rental basis. Expenses under the head (a) formed 72 per cent of the total rents in 1967-68 as against 62 per cent of the total expenses on rents in 1958. The increase is accounted for by various offices of the Corporation occupying their own buildings put up in recent years, and carrying a high rental value.

12.4.3. The following table compares the growth of business in force at the end of each year with the growth of "Rent":—

Year	No. of Policies in force at the end of the year (in lakhs)	Index of Policies in force (Base Year 1958)	Index of Rent Expenses
1958	62·25	100	100
1959	69·28	111	112
1960	77·13	124	133
1961	85·81	138	147
1962-63	94·93	152	208
1963-64	103·28	166	188
1964-65	108·22	174	226
1965-66	115·89	186	242
1966-67	121·40	195	258
1967-68	127·59	205	289

12.4.4. The expenses kept more or less pace with the number of policies in force upto 1961. Thereafter, they grew at a faster rate, probably because the Corporation under its "Five Year Plan" opened a large number of Branches and sub Offices, as can be seen from the following figures :

Offices	On 31-12-57	On 31-3-68
Central Office	1	1
Zonal Offices	5	5
Divisional Offices	33	36
Branch Offices	195	414
Sub offices	45	135
Development Centres	..	152

12.4.5. (a) The following table shows the average annual cost per policy for the zones as well as the entire Corporation :

Year	Northern Zone	Central Zone	Eastern Zone	Southern Zone	Western Zone	Corporation
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1959	0·83	1·04	0·76	0·54	0·54	0·69
1960	0·84	0·91	0·82	0·68	0·54	0·73
1961	0·81	0·80	0·72	0·66	0·54	0·72
1962-63	1·12	0·94	0·88	0·80	0·73	0·92
1963-64	0·07	0·70	0·97	0·60	0·60	0·76
1964-65	1·02	0·69	0·77	0·57	0·79	0·86
1965-66	1·05	0·73	0·75	0·59	0·79	0·87
1966-67	1·03	0·69	0·82	0·57	0·78	0·87
1967-68	0·85	0·61	0·89	0·45	1·16	0·93

The Central Zone started with the least number of policies among the Zones. With the increase in the number of policies since then, the cost per policy has declined. There is a steep rise by about 100 per cent in the case of the Western Zone between 1959 and 1967-68. In the Eastern Zone, the expenses have risen from 76P. in 1958 to 89P. in 1967-68. These two Zones have contributed to the higher expense of the Corporation as a whole.

(b) Since the size of an average policy has increased since 1959, the decline in the average cost under the head "Rent" as a percentage of the average premium income for a policy is more meaningful as may be seen from the following table :

	1959 %age to Premium Income per Pol.	1967-68 %age to Premium Income
Corporation	0·54	0·55
Northern Zone	0·54	0·41
Central Zone	0·57	0·35
Eastern Zone	0·63	0·61
Southern Zone	0·50	0·31
Western Zone	0·42	0·63

12.4.6. A study of the average rent cost per employee for the different Zones and the Corporation during the years 1963-64 to 1967-68 (vide Appendix 43) shows that the cost has gone up for the Corporation and the Central, Eastern and Western Zones. This however, does not lead to any useful conclusion because of the difference in various factors like standards of available accommodation, rent etc. at various centres. A general feature visible in Appendices 44(a) to 44(f) and 45(a) to 45(f) showing the data for the Divisions is that expenses under item (a) of paragraph 12.4.1. have generally exhibited a tendency to rise while expenses under item (b) have tended to fall. This is natural considering that the cost of new constructions has been increasing and that the Corporation has been progressively housing its offices in its own buildings.

12.4.7. The accounting procedure, as has been referred to earlier in connection with other heads of expenses, is such that a proper allocation of the rent cost between New Business and Business in force is impossible.

12.4.8. During the last 12 years, the Corporation must have accumulated a huge volume of records occupying a good amount of space. It would appear that the Corporation has not yet given serious thought to the possibility of sorting out old and unnecessary records and destroying them to save space. It is essential to ensure that records which have outlived their utility are not allowed to accumulate, occupy space and swell the expenses under Rent. *We, therefore, recommend that a comprehensive survey should be undertaken by the Corporation to sort out old and unnecessary records and steps should be taken to destroy all unnecessary records that have outlived their utility.*

12.4.9. We have also observed that in certain cities some of the Branches are located in the same street or locality and in some cases there are more than one Branch Office even in the same Building For example,

in Bombay there are 3 Buildings which house 3 Branches each; and 1 Building that houses 2 Branches; there are 2 Branches in one street, 3 in another, and 7 in a third street though not in the same building and 2 Branches in the same locality, though not in the same street. There are 19 Divisions, in which Branch Offices are located in this manner. The Committee is rather surprised not only at the haphazard growth of offices but also at the absence of any attempt to rationalise the location of such offices even after 12 years. In our opinion, there could be no pressing reason to locate more than one Branch in a locality. *We, therefore, recommend that the Corporation should examine the present haphazard and unplanned location of Branches in the same locality and take steps to relocate branches in a rational manner.*

SECTION 5—TABULATING MACHINES—RENTAL & MAINTENANCE

12.5.1. Expenses under this head of account are made up of the following items.

1. Tabulating (Punched Card) Machines	Rental & servicing charges of rented machines.
2. Tabulating (Punched Card) Machines	Service charges of own machines.
3. Adrema & other machines Service charges.	
4. Maintenance of Electronic Data Processing Machines in Bombay (Computors).	

12.5.2. Punched Card Accounting Machines are installed in the Divisional Offices, Integrated Head Offices of Units, Zonal Offices and the Central Office. The requirements of the equipments, especially Tabulating Punched Card Machines and Adrema were estimated originally in 1959 according to the experience of the leading erstwhile Insurers. The Corporation revised its requirements in 1960 on the basis of additional and increasing work and improve standards. Even so, the requirements of the Divisional, Zonal and Central Offices, varied with the number of jobs and the extent of mechanisation of the work. In 1965, the O & M Dept., systematised the machine work with a Manual leading to a greated degree of mechanisation. However, we are informed that no evaluation has yet been made of the work of the Machine Department.

12.5.3. The original equipment of 65 Column "Power Samas" machines in several offices was charged to 80 column equipment gradually to accommodate more work. But the following Divisions are still working with 65 Column Machines.

Eastern Zone :—Jalpaiguri and Gauhati.

Southern Zone :—Madras, Coimbatore, Trivandrum, Hydera-bad, Masulipatnam, Thanjavur, Udipi and Madurai.

The current cost price, rentals and maintenance charges of the 80 columns equipment are given in Appendix 46. The normal life time of a machine is estimated to be seven years. Provision for replacement is based on this normal life of seven year for each machine. We understand that no machine is replaced unless it is found unserviceable. I.B.M. Machines are obtained on a rental basis, while the I.C.T. Machines are obtained generally on an outright purchase basis. Servicing charges of adrema machines vary with distance from centres like Madras, Bombay, Delhi, Calcutta, Coimbatore and Bangalore as stated below:—

	Annual charges for Monthly servicing		quarterly servicing	
	Bradma	J. K. Business Machines	Bradma	J.K. Business Machines*
	Rs.	Rs.	Rs.	Rs.
Embossing & Printing Machines (within 25 miles)	139	108 (Non-Selector Type)	48	..
		120 (Selctor Type)		
Outstation Area	180		150	108

*In addition, travelling expenses are also payable.

12.5.4. The Corporation also uses other smaller types of machines like Calculating Machines, Comptometers, Franking Machines, etc. Servicing charges for these are not heavy and are dealt with under "repairs to furniture" in the Schedule to the Revenue Account. It is desirable that the head of account "Repairs to Furniture" should indicate that it also includes the service charges on these small machines.

12.5.5. Statements showing expenses under this head of account relating to the Divisions and Zones with their ratios to the premium income are given in Appendices 47(a) to 47(f). A comparison of the growth of "expenses" under this head of account with the growth of business (number of policies) in force has been made in the following table with 1958 as the base year.

Year	Index of growth of expenses (Base year 1968)	Index of growth of policies (Base year 1958)
1958	100	100
1959	108	111
1960	132	124
1961	209	138
1962-63	402	152
1963-64	351	166
1964-65	404	174
1965-66	474	186
1966-67	554	195
1967-68	710	205

It may be seen that the increase in "expense" is disproportionate to the increase in the number of policies. This increase is explained by the increase in mechanisation of jobs since 1960, the increase in rentals consequent to the devaluation of the Rupee in June 1966 and the additional rentals of the subsidiary equipment required for the Electronic Computor installed in Bombay.

12.5.6. The Corporation has been calculating the ratios of expenses under this head as percentages of "First Year and Renewal Premium Income". This makes a realistic appreciation of the utilisation of machines difficult since the work done on machines includes work done for the Provident Fund, Mortgages, Investment and 'Buildings Departments at Central Office and work done at Zonal Offices. Further, the allocation of a portion of these expenses to General Business does not truely reflect the extent (in-terms of expenses) of the utilisation of machines for the general business as observed in our Chapter on "General Insurance". Subect to these obsrvations, an allocation of expenses under this head between new and existing business is attempted in proportion to the First Year and Renewal Premiums of the respective years and shown in the following table :

Year	Expenses allocated to New Business (in crores)	Expenses New Policy	Expenses allocated to existing Business (in crores)	Expenses per existings policy
	Rs.	Rs.	Rs.	Rs.
1958	2·63	0·27	10·64	0·18
1959	3·11	0·27	11·30	0·18
1960	3·86	0·31	13·65	0·20
1961	5·97	0·41	21·73	0·28
1962-63	11·32	0·64	42·08	0·49
1963-64	9·84	0·60	37·13	0·39
1954-65	10·30	0·71	43·35	0·42
1965-66	11·72	0·75	51·22	0·47
1966-67	12·76	0·90	60·80	0·52
1967-68	15·31	1·07	78·99	0·65

Even with its limitations, the table brings out that the unit cost has risen from Rs. 0.27 to Rs. 1.07 per "new policy", and from Rs. 0.18 to Rs. 0.65 per "existing policy".

12.5.7. We have not attempted a comparative study on these lines for Zones and Divisions because the conclusions of such a study are likely to be affected by the fact that the utilisation of the machines in an office is not

exclusively for the work of that office. There are variations between Division and Division, and Zone and Zone in this matter. For example, the Western Zonal Office undertook the machine work of Surat, Ahmedabad and Rajkot Divisions for some period. In the Southern Zonal Office too, there has been intermingling of the work of Udipi/Bangalore, Machilipatnam/Hyderabad and Thanjavur—Madras Divisional Offices.

12.5.8. We understand that the Corporation decided its mechanisation programme on the basis of the report of the Committee on Mechanisation (1960). This Committee had found that the Corporation, at that stage, was utilising the tabulating machines to a very limited extent. The Committee, therefore, prepared a list of "jobs" which were fit for mechanisation in all Divisional Offices. In doing so, the Committee was guided by the fact that the mechanisation of some jobs, though not contributing to economy, might lead to an increase in overall efficiency and the possibility of utilising the data acquired in the course of mechanisation for other analyses. The Committee anticipated that the increased cost of mechanisation would be set off against the saving in expenditure by a reduction in the proportion of clerical employees to the increased volume of work etc. However, the quantum of expenses and the unit cost of operating the machines have risen progressively due to the reasons that we have stated in an earlier paragraph.

12.5.9. Our Committee has been told that some of the machines are allowed to lie idle for considerable periods of time, and sometimes, for a number of years. One Zonal Manager stated in his evidence that in his Zone he has been able to locate some idle machines and to effect economy to the extent of Rs. 2 1/2 lakhs. In the Note on economy measures that the Central Office submitted for the consideration of a recent Zonal Managers' Conference, it has been stated that some machines have recently been released. This reveals that there have been surplus machines lying idle for quite some time. The work required to be performed on the machines (according to the Manual), *e.g.*, statement of lapses to be sent to Development Officers, deposit scheduled and loan scheduled etc. has remained undone in many Division, with consequent loss of efficiency. This indicates that the machines are not being effectively utilised, and the estimates of their requirements are not being properly made. *Apart from the general vigilance that we have recommended in paragraph* 12. 1.2, *we recommend that the Corporation should immediately undertake an evaluation of the extent of utilisation of machines and ensure full utilisation of the existing equipment.*

Section 6—Electronic Data Processing System

12.6.1. Prior to nationalisation, the big erstwhile Insurers were using Punch Card Machines for accounting and other purposes. The Corporation continued to use machines of this type in its various Divisional Offices since its inception.

12.6.2. The installation of an E.D.P. System in L.I.C. was first considered in August 1960 by a Committee consisting of three senior officers of the Corporation. The Board of the Corporation thereafter considered the question and decided in principle to instal computers at Bombay and

Calcutta. The Computer at the Bombay Divisional Office has already been installed and is functioning, while the Computer at the Calcutta Divisional Office has not yet been installed.

12.6.3. The consequences of the installation of the Computer are to be considered from two aspects (i) the question of social costs, and (ii) advantages of computerisation at institutional level.

12.6.4. *Social Costs.*—In the Chapter on Labour Policy and Programmes in the 2nd Five Year Plan, it was emphasised, *inter alia,* that consequent on rationalisation there should be no retrenchment or loss of earning of the existing employees. At the 24th Session of the Indian Labour Conference held in July 1966 it was agreed that the requirements or rationalisation should be fully complied with whilst introducing automation also. It appears, therefore, that the broad policy adopted by the Government is that where any rationalisation or computerisation is to take place, the people must be guaranteed work, *i.e.* nobody should be thrown out of employment.

12.6.5. The L.I.C. has estimated that as a result of the switch over to computers (this switch over is expected to take about three years) 383 jobs would disappear but the very process of computerisation would create 225 new jobs. The reduction in the number of jobs is, therefore, only 158, *i.e.* about 50 per year. By 31st December, 1968 over 4 lakhs of policies in Bombay Division have been put on the Computer and we understand from the Corporation that the actual gross displacement that has occurred is 66 (against 62 estimated) and the net displacement is just 7 (against estimated 19). We understand that the 7 employees who were found surplus have been absorbed against new recruitment in Bombay itself.

12.6.6. It appears that computerisation in the U.S.A. and the U.K. has not resulted in any spectacular displacement as may be seen from the following extracts:—

(i) Charles B. Laing, President, Life Office Management Association, stated at the Automation Forum, 1962, that—

> "Fortunately the growth of our (*i.e.* insurance) industry has been so dynamic in that period of time that it seems clear that we have not only not decreased our staffs (as a result of automation) but have even found it necessary to hire more people.

(ii) A study of the experience in the U.K. is available in Manpower Studies No. 4—Computers in Offices—issued by U.K. Ministry of Labour, published by HMSO (1965). The findings of the report are:—

> "The number of staff actually discharged as a result of the introduction of EDP on this scale appears to have been virtually negligible." .... "The reasons for the comparative absence of disruption have been the length of time which EDP takes to install, the predominance of women employees with no firm attachment to an office career, and the fact that in

many cases E.D.P. took over from punched card systems and much of the impact of mechanisation had been absorbed previously." "But perhaps the main reason why the transition has been comparatively untroubled is that it has been associated with a general expansion of business in the concerns which have been introducing E.D.P."

From the above, it appears that the installation of Computers in the U.K. and the U.S.A. did not result in any retrenchment mainly because the period of Computerisation coincided with a period of growth. Given similar conditions, it can be expected that the change over to computers in India also will not result in sizeable displacement of staff.

12.6.7. *At the Institutional Level.*—The cost incurred in E.D.P. at the institutional level represents a sum total of development costs and running production costs.

12.6.8. Before a Computer is installed, studies regarding feasibility will have to be undertaken; the systems in operation have to be studied and programmes suitable for such systems have to be developed; the programmes so developed have to be tested for accuracy and to ensure that all eventualities have been provided for. In addition the previous records has also to be converted into a form (usually magnetic tapes) acceptable to the computer. The expenses on all the above items are development cost.

12.6.9. The direct production costs or machine costs consists of expenses on staff, space and stationery. After conversion to computerisation is completed, savings on machine costs will begin to accrue, and go on increasing in later years as the number of policies processed increases without proportionate addition to the costs of processing. The maximum amount of saving would be when the computer is running to its full capacity and working on a round-the-clock basis.

12.6.10. As regards staff, the technical personnel (like System Analysts and Programmers) are allocable to development activity. A portion of the Class III Staff engaged on conversion activity also falls under development expenditure. It has been estimated by the L.I.C. that when conversion is completed in Bombay Division, there will be a saving in staff of 79 employees but it should be noted that this saving will be masked by the development expenditure on staff.

12.6.11. The smaller space required for the computer would yield a saving.

12.6.12. The expenditure on stationery may be more or less the same for the computer system as for the Punched Card System.

12.6.13. Finelli in a paper* submitted to the Institute of Actuaries in 1960, has quoted data relating to the Metropolitan experience regarding unit costs in E.D.P. and has concluded that the unit costs in E.D.P. are

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*J.I.A. Vol. 86, Part II, No, 373 P.P. 161-214.

much lower than on the Punched Card equipment. From the information supplied by the Corporation, we find that the unit costs on the conventional machines and computers work out as under:—

Description of Operation	Cost of Punched Card Equipment.	Cost of 1954 Computer.	Cost of 1961 Computer.
Sorting 1000 cards involving a 12 digit sort	*90c	$1·64	40c
Certain calculation on policy records each calculation being the equivalent of 3 multiplications for each policy . . .	94c	93c	6c
Cost of bringing up to date 1000 policy records assuming about 120 characters each and assuming that in one out of every 10 policies there was change of information	$1·12	36c	7c

*NOTE :—This cost is on a relatively unchecked basis and is therefore not strictly comparable with the other costs. For an accurate comparison, the cost of checking the result would have to be added to the estimate.

12.6.14. Thus the direct production costs under the E.D.P. System are less than in the Punched Card System. However, the question of development cost cannot be ignored while assessing the overall position. It has also to be noted that even after the computer has commenced full production, development costs continue to be incurred for research, fuller and better utilisation of the computer and other systems, planning for a new computer (this will have to be taken up one or two years earlier to the time when the present computer is likely to be scrapped) etc. The following extract from a 'paper' by P.W. Sharman, M.A., F.I.A. (Reported in Post Magazine and Insurance Monitor dated 5th September, 1968) summarises the overall cost position:—

> "Are we doing the work more cheaply? This is a difficult question to answer and one in which management must have a real interest. It is difficult to answer because one can never say what the old system would have cost under present conditions, and it is difficult to answer because savings made by the computer are usually masked by other factors. In the computer department itself the cost of the development of the system has to be allowed for, and some systems seem to be developing continuously."

> "Individual jobs are being done more cheaply than before but it may be several years before the capital cost of new systems development will be written off out of savings. Put another way, because of new work under development the total data

processing costs, including new systems under development, may well be keeping expense ratios up at the present time in anticipation of material savings in the future."

12.6.15. *Other Advantages of E.D.P.*—The following other advantages of computerisation have been claimed by the L.I.C. As a result of computerisation, the systems and procedures in use external to the computer had also to be studied in detail by the L.I.C. and this study has resulted in a number of minor system changes. Some of these have important influence on improving speed and efficiency of operations. The following examples of such changes had been given by the L.I.C.

(i) The new Premium Notice prepared on the computer is a complete bill of accounts showing the current premium, arrears of premium, if any, interest on arrears of premium and interest on loan if there is a loan raised on the policy. Any amount lying to the credit of the policy is also accounted for. The inclusion of these details have led to an increase in the percentage of policyholders who pay premiums within the days of grace, reduction in the number of amounts to be kept in deposit, and quick adjustment of deposit.

(ii) The consolidation of several files of records for each policy into one single record.

(iii) Error detection techniques made possible by the Computer have led to quicker disposal and correction of errors than was possible earlier.

(iv) Before computerisation late fee had to be waived on ground of omission to send or delay in sending a premium notice or other such causes. With the computerisation, such lapses are eliminated, and waiver of late fee is discontinued as a rule.

(v) With the help of the Computer, it has become possible to remind policy holders if their age is not admitted or if nomination or assignment has not been made, by sending notices on the policy anniversary directing the policy holder's attention to the need of the Corporation regarding improvement of efficiency under the computerised system of working is likely to be justified. At present efficient service to policyholders is not obviously forthcoming. It may be that introduction of computers may fill this gap. If this could be achieved, the policyholders to whom only the Corporation's funds belong, would be benefited. We would even go to the extent of saying that even though this service through the medium of computers may prove a little costlier, if only it could lead to better servicing to policyholders and better efficiency of management, one should not he sitate to look to the computers to deliver the goods. Elsewhere in this Report, in the chapter on "Organisation and re-organisation", we have referred to the findings of some members of the Actuarial Society of India on the size of Insurance companies in the U.S.A. vis-a-vis the installation of computers. According to their findings, with the introduction of computers, size is not a problem for companies in the U.S.A. The L.I.C. is growing and is bound to expand at a faster rate if it improves its systems and methods on the lines suggested by us. Consequently, great care is called for and proper planning is necessary with regard to the envisaged expansion and how to run the institution efficiently. For achieving this objective, one

has perforce to take a leaf from the experience of others similarly placed. *We, would therefore, recommend that decisions on the utilisation of the E.D.P. System should not be based exclusively on the immediate economy in expenses that may result from computerisation, but on the improvement in the speed and the quality of service to policyholders and in the precision speed and versatality with which the information that management needs to assure administrative efficiency and take vital managerial decisions is made available by the computer.*

SECTION 7—PUBLICITY EXPENSES

12.7.1. The publicity expenses of the Corporation shown in the following table have been dealt with under the head "Advertisements" in the Revene Accounts.

Period	Amount of Expenditure (in thousands)	% to Total Expenses	% to First year's Premiums.
	Rs.		
1958	11,03	0·51	0·81
1159	20,45	0·64	1·13
1960	13,89	0·50	0·69
1961	21,78	0·69	0·94
1962-43 . . .	36,00	0·81	1·17
1963-64 . . .	34,55	0·86	1·20
1964-65 . . .	28,24	0·63	0·96
1965-66 . . .	24,80	0·50	0·79
1166-67 . . .	24,71	0·45	0·77
1967-68 . . .	19,94	0·34	0·58

12.7.2. The details of these expenses for the years 1965-66, 1966-67 and 1967-68 are given in Appendix 48. (the details were not available for other years). The growth of expenses, and its ratio to First Year Premium Income as well as total expenses have been erratic between 1958 and 1962-63; but in subsequent years, they have shown a steady fall.

12.7.3. The biggest single item of publicity expenses forming about 40 per cent to 46 per cent of the total pertains to Advertisements. Other major items are Hoardings, Neon-signs, Bus Panels, maintenance of mobile publicity vans, exhibitions, Zonal House Magazines and Divisional Officer New Letters. The cost of production of films is capitalised, and written off over a period of three years.

12.7.4. We understand that only such expenditure as was clearly of the nature of advertisement expenses (*e.g.* press advertisements, fairs, festivals etc.) has been included in "ADVERTISEMENTS" expenses, while other expenses like cost of producing leaflets, brochures, saleable development materials, diaries, calendars, etc. (though they were included in the annual publicity budgets) were debited to the head "Printing and Stationery Account". These expenses are also in the nature of publicity expenses, and in the normal course they should have been classified as such. Again, the cost of producing Zonal House Magazines and Divisional News Letters

has been debited to "Advertisements" while the cost of producing the "Yogakshema" the House Magazine of the Central Office, has been debited to "Printing and Stationery Account". These practices appear to be incorrect, particularly in the case of the House Magazines, where different procedures have been followed in the case of the Central Office House Magazine and others. Separate accounts are not being maintained for individual items of printed matter which are being produced for sale and/or free distribution. Thus the extent of the "subsidy" in each case could not be ascertained. *We, therefore, recommed that the manner of allocating the cost of saleable literature and the House Magazines should be revised so that the expenditure shown under the head "Advertisements" in the Revenue Account may disclose a true picture of the publicity expenses. The Accounting Procedure should also make it possible to ascertain the extent of subsidy in the case of each item of saleable literature.*

SECTION 8—TELEPHONE CHARGES ETC.

12.8.1. The expenses under this head of account are made up of the following items :

1. Telephone charges—Rentals.
2. Telephone charges—Local calls.
3. Telephone charges—Trunk calls.
4. Telephone charges—Writing off of OYT Deposits.
5. Fees for filing returns.
6. Fees for renewal and registration of Trade Licences.
7. Renewal and Registration of Telegraphic Addresses and Window Delivery charges.

12.8.2. The following are the figures for the expenses under this head:

Year	Amount Rs. (in thousands)	% to Expenses of Management.
1958	6,47	0·30
1959	7,05	0·29
1960	9,69	0·35
1961	11,65	0·37
1962-63	18,14	0·40
1963-64	15,95	0·39
1964-65	17,49	0·39
1965-66	19,97	0·40
1966-67	24,97	0·46
1967-68	24,80	0·42

12.8.3. Although these expenses form only a small part of the total expenses of management, they have shown a continuously rising trend. The increase has been about 4 times, rising from Rs. 6.47 lakhs in 1958 to Rs. 24.80 lakhs in 1967-68.

12.8.4. Residential Telephones are provided by the Corporation to Development Officers and to Branch Managers, Assistant Branch Managers (Dev.), Assistant Divisional Managers (Dev.) and to the Divisional Managers. On the administrative side, Officers in the cadre of Divisional Manager and above at the Central and Zonal Offices and other Offices are provided with residential telephones. In respect of these residential telephones, the Corporation bears the charges for ordinary calls, upto a maximum of 1200 calls per year in the case of Development Officers, and 1800 calls in other cases. Charges for calls in excess of this limit and private trunk call charges are borne by the concerned Officers. While residential telephones may be considered essential for Officers on the development side in the interests of business, they may not be so for Officers on the administrative side. *We, therefore, recommend that the number of free calls that are allowed to administrative officers for the telephones provided at their residences may be reduced.*

12.8.5. Apart from the general vigilance that we have recommended in paragraph 12.1.2., stricter control is called for in the use of trunk telephone calls. In view of the facility of direct trunk dialing now increasingly available, this has become an imperative need. In many of the Internal Audit Reports, it has been reported that Trunk Call Registers are not being maintained properly. No laxity should be allowed in this matter.

SECTION 9—STAFF MEDICAL, RECREATIONAL AND OTHER EXPENSES:

12.9.1. The expenses under this head comprise of the following items :

(i) Corporation's Contribution to Medical Benefits—Class I

(ii) Medical benefits—Class II

(iii) Medical benefits—Class III & IV

(iv) Leave Travel Concessions—Class I

(v) Leave Travel Concessions—Class II

(vi) Sports and Recreation—Travelling expenses

(vii) Sports and Recreation—other expenses

(viii) Other staff amenities and benefits.

The total expenses under the above sub-heads which are shown in the revenue account under the main head "Staff Medical, Recreational and other expenses" have been as follows :—

Period	Amount of Expenditure (In thousands)	% to total Expenses	% to total Premium Income.
1958	N.A.	..	..
1959	N.A.	..	..
1960	N.A.	..	..
1961	N.A.	..	..
1962-63 (15 months) .	94	·02	·01
1963-64 . . .	1,01	·02	·01
1964-65 . . .	2,99	·08	·02
1965-66 . . .	25,87	·52	·14
1966-47 . . .	29,40	·53	·15
1967-68 . . .	31,52	·55	·15

N. A. — Not available.

NOTE :—Respective figures for the Zones and Divisions are also not available.

12.9.2. These expenses form a very insignificant part of the total management expenses. The steep increase in 1965-66 in the expenses is due to the payment of medical benefits to Class III and Class IV staff with effect from 1st January 1965 in terms of the settlement arrived at with the Employees' Union on 29th January 1965. Again, the increase of Rs. 3.53 lakhs during 1966-67 is attribute to the introduction of medical benefits insurance schemes for Class I and Class II Officers with effect from 1st January 1966.

Medical benefits:

12.9.3. The Schemes of Medical benefits can be briefly outlined as follows :—

(a) Corporation's contribution to Medical Benefits—Class I:

This Scheme which is effective from the 1st of January 1966 is compulsory for all the Class I Officers of the Corporation and is subject to a review after 2 years. It is, however, still in force, and no change has yet been made in it. It is contributory in nature, the Corporation bearing 2/3 of the premium and the Officers bearing 1/3 of the premium on the blanket insurance cover effected in this regard with the General Insurance Department of the Corporation. The premium ranges from Rs. 50/- to Rs. 204/- per annum per Officer, and from Rs. 26 to Rs. 52/- per child of the Officer, depending upon the basic pay of the Officer. Insurance of

the Officers' wife/husband and children (upto maximum of 2) is optional. The benefits available are in respect of treatment at home and in hospitals. Maternity benefits are also provided. Ceilings have been laid down for these benefits and they range from Rs. 200/- to Rs. 500/- per year for domiciliary treatment, from Rs. 480/- to Rs. 1200/- per year (Rs. 1200/- to Rs. 3000/- for the entire period of service) in the case of maternity benefits, and Rs. 1400/- to Rs. 3500/- per year in the case of hospitalisation. A scale of fees has also been specified for various types of surgical operations (subject to the overall limits specified above).

(b) *Medical Benefits—Class II*

This Scheme is effective from the 1st of January 1966, for a period of 2 years. It is still in force, and no change has yet been introduced in it. It is non-contributory in nature. The Corporation reimburses to the Development Officer the amount of medical, surgical and hospi l expenses incurred by him, subject to various maximum rates for Doctor's visits, medicines, special examinations and hospitalisation. In the case of the members of the Officers' family (including wife/husband, all minor children and widowed mother) hospitalisation expenses for major illnesses is reimbursed subject to a maximum of Rs. 650/- per year and Rs. 2600/- during the entire period of service, in the case of Officers drawing a pay of over Rs. 600/- per month. For others, the maximum limits are Rs. 450/- and Rs. 1800/- respectively.

(c) Medical Benefits—Class III and IV:

This Scheme which is effective from the 1st of July 1965 is subject to review after 2 years. It is still continuing. Under this scheme, which is non-contributory, each employee is allowed reimbursement of medical expenses, subject to a maximum benefit of Rs. 50 per calendar year, to be utilised by the employee and his/her family (including wife/husband, minor children and widowed mother). Accumulation of benefits is permitted upto three years. The bills submitted by the employees have to be scrutinised by the Corporation. Since the benefits can be accumulated for three years, the Corporation has to maintain individual accounts for each employee to exercise control over the payments.

12.9.4. Besides the Medical Benefits indicated in the preceding paragraphs, Officers in Class I and II are given certain Leave Travel Concessions. These were allowed from 1st October, 1965. The concession is granted once in every "block of two years", the first of such blocks commencing from 1st January, 1965. Under this scheme, the fare for the "appropriate" class of railway accommodation by the shortest route between the Officers' Headquarters and the "home town" declared by the Officer is paid to him for the Officer, his/her wife/husband and dependent children, subject to the Officer bearing the fares for the first 400 K.M. of the journey. The appropriate class of railway accommodation is II Class for Development Officers with a basic pay of less than Rs. 405 p.m. and I Class for others.

Sports and Recreation Travelling Expenses and other expenses:

12.9.5. Prior to 1st April, 1965, the Corporation has been sanctioning a non-recurring grant of Rs. 1,000 to each sports Club of the employees towards furniture and sports equipments and a recurring grant equal to the

annual subscriptions collected by the members of the Sports' Club. A new procedure was adopted with effect from 1st April, 1965. A Central Co-ordination Committee at the Central Office, co-ordinates the activities of the various sports clubs to sanction grants to them on prescribed lines, as indicaed below :—

	Rs.	Total Rs.
(a) For clubs at Bombay, Calcutta and Madras, where there is a large concentration of staff and facilities for sports activities are available	5,000 each	15,000
(b) For clubs at Delhi a d Kanpur having lower number of staff.	3,000 each	6,000
(c) For clubs at big cities where there are Divisional Offices. .		70,000
(d) For Branches where number of staff is considerable . .		80,000
(e) For organisational expenses in respect of All India Tournaments at Divisional and Inter-Divisional levels		80,000
(f) Travelling and lodging expenses of participants in tournaments.		1,00,000
TOTAL .		3,51,000
or (say)		4,00,000

Additional cost involved on account of the benefits referred to in paragraphs 12-9-3 :

12.9.6. The Corporation's contribution to the medical benefits of Class I Officers was about Rs. 4·5 lakhs initially. With the increase in the number of Officers and the increase in their basic pay, the cost of this contribution will also increase. The medical benefits to Class III and IV employees was estimated to cost about Rs. 20 lakhs annually. Here again, the cost will rise with the increase in the number of employees. The facilities for sports and recreation were expected to cost about Rs. 4 lakhs annually. The Corporation has stated that the cost of the benefits under Leave Travel Concession rules cannot be estimated.

12.9.7. The expenses under this head of account are what a model employer may be expected to incur, keeping in view the welfare of his staff. Moreover, some of the benefits like medical benefits and leave travel concessions have been introduced as a result of negotiations with the various staff Unions. Expenses on sports are intended to foster interest in athletics and games, which in its turn is expected to improve the mental out-look, health and esprit de corps of the employees. These "welfare" expenses require the constant vigilance recommended by us in paragraph 12-1-2.

The Corporation should also consider how the administrative cost of dealing with such benefits, especially the medical benefits, can be kept at the minimum. This might require a review of the existing procedure and methods of supervision. In particular, we feel that in the case of the medical scheme for Class III and IV, the work involved in the administration of the scheme is not commensurate with the amount of the benefit, Rs. 50 per year, per employee. Since the annual maximum benefit is small and since it can be utilised by the family of the employee too, it is very likely that every employee fully avails of it every year. We, therefore, recommend that if it is found after an investigation that the cost of the administration of the scheme is disproportionately high in relation to any advantage that may be gained from it, the amount of Rs. 50 may be paid to the employees as an annual allowance thus avoiding the present cost of administration of the Scheme.

12.9.8. There is a further point to be considered under the head "medical benefits". In the case of Class I Officers, the Corporation's liability is limited to its share of the premium contributions, since the claims under the schem are paid under the Insurance policy. But in the case of Class II Officers and Class III and IV staff, there is no such insurance cover, and the claims are borne by the Corporation. The medical benefits schemes for Class I Officers and Class II Officers were initially intended to be in force upto 31st December, 1967. The Corporation was to decide at the appropriate time whether or not the Scheme for Class I Officers should be continued thereafter, and if it was to be continued, the terms and conditions on which it was to be continued. It seems that the Corporation is yet to take a review of the working of the Scheme. *We, therefore, recommend that a review of the Medical Benefit Schemes for Class I and II Officers which is overdue should be immediately undertaken by the Corporation bearing in mind any disparities in the benefits enjoyed by different classes of employees.*

CAPTER XIII

REINSURANCE

Necessity :

13.1. Insurance is based on the principle of averages. Averaging may arise at various levels, and it requires a sufficient number for the law of averages to give satisfactory results. It is common knowledge that at the higher ranges of sum assured, the number of cases involved would be small. Similarly in respect of under-average lives the number of lives involved would be small, having regard to various impairments and groups at ages of entry as well as the sums assured under the contracts. In view of the small numbers involved an insurance company would not be in a position to accept the risks straight away without unduly affecting its own financial stability. Consequently insurance companies reinsurance certain risks, above their normal retention limits, with other insurance companies so that the risk in each case could be spread out among the insurers.

Facultative and treaty reinsurances :

13.2. Reinsurance arrangements fall under two broad categories viz., Facultative Reinsurances and Treaty Reinsurances. Facultative Reinsurances involve the placing of the risks by the ceding company on other insurers every time a risk is to be ceded. It is open for the insurance company, approached for acceptance, to accept the risk offered or decline them. The ceding company can similarly place its risks with any company it may chose. Hence the quality of the risks being offered may be of a selective nature. Thus this type of reinsurance might involve some delay in acceptance of the principal risk as also more expenses being incurred by the ceding company because it has to incur expenses in entering into those individual arrangements. The other type of reinsurances viz., Treaty Reinsurances involve agreements being entered into betwen two or more insurers for the ceding company, to cede a part of the risks being underwritten by it, and the automatic acceptance of it by the accepting company. Here, the ceding company can underwrite even large risks without having to wait for the consultations with the reinsurers for the excess over its own retention limits. Since reinsurance under this type is automatic, there is no delay once the reinsurance agreement is entered into. Nor has the ceding company to incur any heavy expense. Thus this type is more beneficial from both the points of view.

Original premium & risk premium reinsurance:

13.3. Reinsurance arrangements can be on various plans according to the needs of the ceding company. One plan would be to effect reinsurance on the original premium basis. This implies that the accepting company has to follow the rates, terms and advantages of the ceding company. It also implies that the ceding company would be securing cover from the accepting company for all the three

elements, viz., mortality, interest and expenses in return for the corresponding premium. The sum reinsured will be uniform throughout the term of the policy and would be payable on maturity or earlier death. Another plan which does not force the ceding company to part with the premium in respect of all the three elements, but only the portion relating to mortality, is what is known as risk premium basis. Under this plan, the reinsurer will be liable only in the case of claim by death of the life assured, and in case the life assured survives the term the reinsurer has no liability. Since only mortality risk is covered, the ceding company would be paying the accepting company practically very small sums by way of premiums. These premiums would be the equivalents of the temporary assurance cover, for a year at a time, the sum as risk being the difference between the original sum reinsured and the reserve held thereon. Since the sum at risk, on which the premiums are payable would be decreasing from year to year, the reinsurance premium also would be decreasing from year to year.

Present arrangements :

13.4. At present, the L.I.C. has the following reinsurance arrangements :—

A. Reinsurance Ceded:

(1) Reinsurances which are kept up in pursuance of the treaties entered into by the erstwhile insurers prior to nationalisation. Though some of the reinsurances effected by them have been terminated by negotiations with the reinsurers, similar action could not be taken with regard to other contracts. (Some of these are on the original premium basis, and some on the risk premium basis.)

(2) Reinsurance, on risk premium basis, of standard lives in respect of the policies issued by the Corporation. This is only in respect of policies with very large sum assured. The Corporation retains to itself a total risk upto Rs. 7 lakhs under standard plans in respect of any one standard male life aged upto 40. The retention limit in respect of women and elderly men and group term insurance policies is less.

(3) Reinsurance on risk premium basis in respect of policies issued by the Corporation on sub-standard lives. Here, the amount of retention depends upon the degree of "sub-standardness" of the life assured, the retention decreasing with the increase in the "sub-standardness" of the person.

(4) Reinsurance for Accident Benefit meant to secure cover against excess of loss occuring in catastrophic loss as in respect of life policies with Double Accident Benefit issued by the Corporation as also by erstwhile insurers.

B. Reinsurance accepted :

(1) Reinsurance treaty, on risk premium basis, with the Insurance Corporation of Ceylon, in terms of which the Life Insurance Corporation accepts 100 per cent surplus risk beyond their retention limits in respect of both standard and sub-standard lives insurred by the I.C.C.

(2) Reinsurance treaty on risk premium basis with National Insurance Corporation of Tanzania (of which the Indian Guarantee & General Insurance Company, a subsidiary of the L.I.C. is a share holder) in terms of which the L.I.C. gets 6 per cent of the surplus beyond their retention limits on all lives.

(3) Retrocession agreement, on risk premium basis, with the Swiss Reinsurance Company (it has been recently entered into) in terms of which the L.I.C. accepts some business of their reinsurances in U.K. Australia and New Zealand.

Volume of Reinsurance Business:

13.5.1. The number of new reinsurances, ceded and accepted, during the last three financial years classified into standard and sub-standard, are given below :—

New Insurances

	1965-66		1966-67		1967-68	
	Standard	Substandard	Standard	Substandard	Standard	Substandard
Ceded	64	26	98	29	124	62
Accepted	526	258	632	240	188	48

13.5.2. The amount reinsured is not calculated from year to year. All reinsurances, ceded and accepted, are on risk premium basis and the sum assured under the same policy decreases from year to year. The sum at risk on the reinsurances, ceded and accepted, are not readily available.

13.5.3. The number of reinsurances in force, ceded and accepted, as at the end of the last three financial years, was as follows :—

Reinsurances in force

	As at 31-3-1966	As at 31-3-1967	As at 31-3-1968
Ceded	6900	6788	6568
Accepted	2445	2990	3200

13.5.4. The classification by standard and sub-standard is not available. These reinsurances are both on risk premium and original premium basis, and it has not been the practice of the L.I.C. to calculate the sum at risk every year.

Net Outgo :

13.6.1. It may be mentioned in this connection that the bulk of reinsurances are on risk premium basis, whereunder only the death risk is reinsured with the reinsurer, and consequently, the reinsurance premium payable is small.

13.6.2. The net effect of the reinsurance ceded for each of the years 1957 to 1967-68 is shown in Appendix 49. Similar details in respect of the reinsurances accepted are made available in Appendix 50.

13.6.3. It will be seen from Appendix 49 that the net effect of all the reinsurances ceded is a net outgo of about Rs. 20·99 lakhs in 1957 which has decreased to about Rs. 8.04 lakhs in 1967-68.

13.6.4. It will be seen from Appendix 50 that the net affect of all the reinsurances accepted is a net income of about Rs. 0·23 lakhs in 1962-63 which has increased to about Rs. 2·75 lakhs in 1967-68.

Expenses on reinsurances :

13.7.1. We understand that the work relating to reinsurances in being attended to by a small section with 5 Higher Grade Assistants and one Assistant, headed by an Administrative Officer, in the Actuarial Department of the Central Office of the L.I.C. We further understand that the Administrative Officer is attending to this work in addition to the responsibility for the Machine portfolio of the Actuarial Department.

13.7.2. The expenses on the administration of reinsurance are not available separately, however, as the staff involved is small, the expenses are not likely to be high.

Recommendations

(*i*) *Though reinsurance may be necessary for an insurer of a small size, or in the early stages of development of a company, it appears to us that reinsurance is not a compelling necessity for an insurer of the size of the Corporation after it has been in existence for* 12 *years. We should also point out that reinsurance ceded by the L.I.C. is always accompanied by a drain on foreign exchange since there is no other Company that can accept Reinsurance of Life Insurance business in India. This is evident from the working of the reinsurance arrangements of the Corporation for the last* 12 *years. We understand that the Corporation has been reviewing the limits of retention periodically.*

(*ii*) *We recommend that while the L.I.C. continues the present risks that have been covered under the existing rinsurance arrangements, without in any way disturbing or repudiating any of the existing commitments or arrangements, it should discontinue the practice of entering into any further contracts or arrangements, for reinsurance with foreign Companies. As we have already pointed out the size of the business transacted by the L.I.C. today and the experience that it has gained in the course of the last* 12 *years make it un-*

necessary or the L.I.C. to reinsure any part of its risks on standard or sub-standard lives, and lose valuable premium and foreign exchange. However, we are fully aware of the special responsibility that has been cast on the L.I.C., as a State Undertaking that enjoys monopoly of Life Insurance business to provide insurance cover to the nationals of this Country. Discontinuance of the practice of reinsurance should not, therefore, become a reason for overcautiousness and unjustifiable hesitancy to take on reasonable risks that reinsurers would have accepted, and decline to provide insurance cover to those who need and deserve it. We would, therefore, recommend that the Corporation sets up a reinsurance fund of its own, by crediting to it amount that it might have paid as premiums if it had continued to reinsure with other Companies. We also recommend that the Government may contribute a sum of about Rs. 2 crores from the share of the surplus that accrures to it under Section 28, to constitute a nucleus of this special reinsurance fund of the Corporation. We also hope that the establishment of this fund will help to reduce the number of lives that the Corporation declines to insure on one ground or other.

CHAPTER XIV

ACCOUNTS

14.1. When the Corporation was established in 1956, it adopted the system of accounting that was obtaining in the Oriental. But from the beginning of 1958, a simpler procedure was introduced. This procedure was review in 1965 and certain changes were brought into effect from May 1966. However, according to the Executive Director (Finance & Accounts), the changes that were made were only minor and no comprehensive review of the procedure has been undertaken so far.

14.2.1. A good accounting system should be simple, should possess built-in and automatic internal control, should facilitate the exercise of supervisory control by the controlling office and should be capable of producing the final accounts in the form required by law. It should be so organised that the compilation of final accounts can be effected with as little delay as possible after the closure of the business for the financial year. Moreover, the system of accounts in an Insurance organisation should be such as would enable statistical and account data to be built up to help in budgeting and reviewing performance, making valid and reliable inter-unit comparisions at regular intervals explaining and justifying the variation between different units, arriving at functional costs and providing a base for research into the pattern of, and trends in, claim settlement, loans, investments, premium deposits, agency earnings etc. In short, the system should provide the tools that the management would require for effective financial and managerial control of every aspect of the business.

14.2.2. The accounts of the Corporation should reflect the financial effects of every one of its activities. These activities result in the earning of income, incurring of expenditure or liabilities and the acquisition or disposal of assets. An analytical study of accounts data should, therefore, disclose the financial position of the Institution and the progres that it is making. It should portray the degree of stability and the favourable or adverse trends that exist in the various aspects of its economic activities. It should also provide the management with an effective instrument for evaluating efficiency and exercising concurrent control over expenditure and growth.

***Set up*:**

14.3.1. At present, the following offices of the Corporation are concerned with the maintenance of accounts:—

(a) Sub Office.

(b) Branch Office.

(c) Divisional Office.

(c) Divisional Office.

(d) I.H.O. Unit.

(e) Zonal Office.

(f) Central Office.

14.3.2. The Sub Office and the Branch Office have the same administrative and accounting functions. Daily and periodical returns of transactions at the Branch Office or Sub Office are sent to the Divisional Office, which scrutinises them and incorporates them in its books under various heads of accounts.

14.3.3. The Divisional Office is the basic accounting unit, and records all income and expenditure as well as assets and liabilities relating to the Division. Final transactions relating to properties and mortgages (other than loans under O.Y.H. Scheme) are accounted in the books of the Zonal Office. In respect of these, the income and payments are accounted by the Divisional Office by credit/debit to the Zonal Office. The Divisional Office prepares a Trial Balance every month and final Trial Balance at the end of every financial year. These are submitted to the Zonal Office. It is therefore, clear that the focal point from which the statutory audit by Auditors (under Section 25 of the L.I.C. Act) starts today is the Divisional Office.

14.3.4. The accounting functions performed by the I.H.O. units are similar to those of the Divisional Offices in respect of its own transactions and those of the I.B.O. Units under its accounting control.

14.3.5. The Zonal Office maintains records of income and expenditure relating to the Zonal Office itself and the assets and liabilities carried in the books of the Zonal Office including house properties and mortgages in the Zonal area. In addition to these, it prepares consolidated accounts at the end of every financial year for the Zone on the basis of its own accounts and the audited Trial Balance of the Divisions and I.H.O. Units under its control. It is also responsible for watching the progress of accounting work in the Divisions and I.H.O. Units and issuing instructions and giving advice wherever necessary.

14.3.6. In the Central Office, transactions relating to investments are recorded in separate books of accounts maintained by the Investment Accounts Department. The Central Office finalises the terms and conditions for opening bank accounts for the various offices of the Corporation, decides policy matters on accounts procedures and deals with tranactions relating to reinsurances. It is its responsibility to prepare its own accounts and consolidate the same with the Foreign Department's accounts and the Zonal accounts and to prepare the Revenue Account and Balance Sheet for the Corporation.

Defects of the Accounts Procedure:

14.4.1. A study of the Accounts Procedure followed by the Corporation suggests that the current procedure has been designed primarily to produce a Revenue Account and Balance Sheet in the form required under law and

not to fashion and provide an effective tool to the management to make inter-unit comparisons at the Divisional and Branch levels to evaluate costs and efficiency and to conduct research. The proedure that is being followed to-day is not capable of disclosing departmentwise expenses in a manner necessary for functional costing.

14.4.2. We are informed that the accounting work in most of the Offices is being done by manual methods. We are further informed that there is no hard and fast rule that govern the mechanisation of accounts and that this has led to the absence of uniformity. It has also made it difficult for the Central Office to give us uptodate information on the extent of mechanisation of accounts in the various offices. Though various Accounts Sub-codes have been devised in the Manual all of them have not been used; since, as the Director(FA) told the Committee "No one required all the information prescribed in the Manual". The committee cannot escape feeling that there has been an element of casualness or indifference in the Central Office's efforts to adhere to the Manual. Consequently, the break-up details of many items of expenditure under the Subheads are not available. For example, the amounts paid under the various sub-codes of salary account, such as Dearness Allowance, House Rent Allowance etc.; departmentwise salary cost; details of travelling expenses of Development Officers and others; break-up of staff recreational expenses etc. etc. are not available today. We have no doubt that mechanisation will greatly speed up the preparation of the periodical and annual accounts and the connected schedules. We feel that with better planning, the desired statistical and accounts data for budgetary control, comparison and research can be built up. This will not only result in a reduction of the number of sub-ledgers that are being maintained but also reduce the clerical labour and cost in collecting such information as and when required. *We, therefore recommend that the system of accounting should be mechanised to the maximum possible extent and in the shortest possible time at all the accounting Units of the Corporation. We are aware of the apprehension that mechanisation may create a surplus of personnel. But we believe that in this case the surplus, if any, will only be marginal and it should easily be possible to absorb them. The increase in efficiency that will result from mechanisation will be a definite advantage to the management as well as the personnel.*

14.4.3. At present, the Divisional Office is the basic accounting unit and the branchwise figures of income and expenses are not built up in the Divisional Office though this could be done. Here too, the various Offices of the Corporation do not seem to have a clear idea as to the possibility and necessity of having branchwise figures of income and expenses. It was not, therefore, surprising that conflicting opinion were expressed by different officials in the course of their evidence before the Committee. We have no doubt that the mechanisation of accounts recommended by us will make this task easier. We should also point out here that in the organisational set up that we have visualised and recommended elsewhere in this report, the Branch Office will become a much bigger unit, performing many of service functions that are today being performed at the Divisional level. It would then be necessary for the branch to become a self-contained unit as far as accounts are concerned. It should be in a position to draw up its own Revenue Account and Balance Sheet and compile the statistical data for managerial control and for enabling comparisons with the performance of

other branches. Unless the branches have the benefit of such a system of accounting, they cannot be expcted to be budget conscious or cost conscious, and unless there is cost-consciousness even at the level of the basic administrative unit, it is difficult to expect effective cost control in the organisation.

14.4.4. Secondly, it has been observed that there is a good deal of intermingling of the income and expenses of different offices. To cite an instance, the administrative expenses of Integrated Branch Office Units are borne by the Divisional Offices in whose area such offices are located while their premium income and expenses on commission are accounted for in the books of their respective Head Office Unit. Further, there is no system of reimbursement either by adjustment or otherwise of expenses incurred by one office of the Corporation on behalf of another, with the result that the expenses of some offices as shown in their accounts include the expenses incurred by them on behalf of other offices. For example, the Zonal Office and Centralised Machine Departments at Bombay have been doing work relating to the business of the Ahmedabad, Rajkot, Surat and Nasik Divisional Offices. Similarly, the Zonal Office Machine Department at Delhi was doing the Machine jobs of the Delhi Divisional Office till 1961. Likewise, the Zonal Office, Kanpur was doing the machine jobs of Kanpur, Lucknow, Agra and Varanasi Divisions till 1961. Another peculiar arrangement, which makes the comparison of office-wise performance very difficult, is the fact that in the case of some offices the income and expenses are mixed up with these pertaining to other offices. In some cases, the income of a certain office is surrendered to the credit of another office, while the expenditure incurred in earning that income is borne by the surrendering office. The following are a few instances of this type. The premium income from Dharwar underwriting Unit is credited in the accounts of the Bangalore Division while the commission on such premiums and administrative expenses of the Unit are debited in the accounts of the Udipi Division. A similar position obtained as between the Tanjayur Division and the Madras Division upto 1967. Again, in the case of the Centralised Cash Collection Centre, Bombay, which is the biggest unit of this type in the Corporation the premium income is credited in the books of the Bombay Division while the administrative expenses are borne by the Bombay Zonal Office. Again, under the commission accounting procedure, in respect of ex-jurisdictional agents, the debit in respect of the payment of renewal commission and bonus commission to Agents is borne by the Agents' parent Divisional Officers while the credit in respect of the premiums on which such payments arise is retained by the Divisional Offices which collect such premiums. Thus, though it would be possible with some effort, to extract separate figures of income and expenditure in respect of each Branch Office, the figures obtained will not reflect a correct picture of the actual position. The Executive Director (Finance & Accounts) in the course his evidence stated that under the existing system of Accounts, one cannot compare the performance of one Branch Office with another and that the comparative efficiency of the various offices cannot, therefore, be judged from the existing figures. The position is in no way different when we come to the Divisions. In fact, it is further complicated by the working of the Centralised Cash Collection Centres and the Salary Savings Scheme policies. This has made it difficult for us to rely on the figures of business.

premium income and expenses that emerge from this system of accounting at the Divisional level, and we find that we have no reliable data for comparing and evaluating performance and comparative efficiency of the Divisions which are the present day equivalents of the Head Offices of erstwhile Insurers. The cost ratios and expense ratios worked out on basis of these defective data are in turn bound to be defective and misleading.

14.4.5. We have also observed that the existing Accounts Manuals do not cover all the aspects of the accounts work fully and that in some instances they are even out-method. There appears to be sample scope for eliminating duplication of work, particularly in the case of Depost Accounting, issue of premium receipts and payment of commission. It also appears that a number of improvements can be effected in the form of books and receipts and in the methods of issuing and despatching cheques and receipts. (An illustrative summary of these is given in Appendix 51.). *We, therefore, recommend that the Corporation should take early steps to simplify and rationalise its accounts procedures to ensure that uniform and effective procedures are followed at all levels including the Branches, so that the accounts of each Branch and each Division may be self-contained and may furnish a true and fair picture of the expenses and income of that Office; and to ensure that the necessary statistical data are regularly built up, collected and collated on a uniform basis, and put to regular and effective use at all levels.*

14.4.6. It will thus be possible to build up the accounts for each Branch and Division at the Divisional Office, on the basis of the periodical Returns prepared at the Branch level and submitted to the Divisional Offices. We are sure that this reorganisation and rationalisation of the procedures and responsibilities for accounting will go a long way towards eliminating the bottlenecks, delays and distortions that result from the present procedure, and in ensuring lucidity and accuracy in accounts at every level.

Administrative Expenses of Investment and Building Departments :

14.5.1. At present, the administrative expenses of the Investment Department at the Central Office and the Mortgage Departments at the Central Office, Zonal and Divisional Offices are completely mixed up with the other administrative expenses of the respective Offices. As we have stated earlier, no break-up of expenses, departmentwise, has been made or even attempted so far. These departments have no direct link with the insurance activities of the Corporation and are exclusively confined to the utilisation of its surplus funds for investment. If the costs of these departments are segregated and studied, an index to the efficiency of these Sections of the Investment Departments can be obtained. It would also then be possible to consider the expenses of the Corporation arising out of its business and policy servicing activities against the premium income of the Corporation. *We, therefore, recommend that the Accounts Manual should prescribe and facilitate separate accounting of expenses in relation to the activities of the Investment Department at all levels wherever such activities are undertaken. We also recommend that the administrative expenses of the Investment Department should be set off against the income given by the department so that the net income is disclosed in the Revenue Accounts under the head "Interests, Dividends & Rents."*

14.5.2. As regards the Building Department, separate accounts are being maintained for its administrative expenses, and at the end of every year, a certain percentage of such expenses (fixed in consultation with the Controller of Insurance) is capitalised while a certain percentage based on the cost of repairs is deducted and debited to the rental income. The balance of expenditure broken up into the relevant heads of expenditure like Salaries, rent, etc., are included in the respective expenditure heads of other departments.

14.5.3. We understand that with the concurrence of the Controller of Insurance, the establishment cost of the care-takers, inspectors, rent collectors, liftmen, watchmen and sweepers engaged for buildings wholly rented out and who are not employed in any building where the Corporation has an office are deducted from the rent receivable. The establishment cost in other cases forms part of the expenses of management. Strictly speaking, the cost of personnel in respect of buildings partially occupied by the Corporation should also be on some reasonable basis if an exact assessment is to be made. However, it seems that the Corporatioin preferred to treat such expenditure as expenses of management. Such a step might have been reasonable in 1959; but, the subsequent experience of the L.I.C. should have led to a rethinking on the subject. Moreover, the establishment cost of the staff engaged for the maintenance of accounts relating to buildings, tenancy income and expenditure forms part of the expenses of management. This position too calls for review. The underlying idea should be that all expenses incurred in earning income through buildings should be deducted from such income. *We recommend that the Corporation should review the present basis for the capitalisation of the administrative expenses of the buildings department in consultation with the Controller of Insurance. We also recommend that the entire expenses of the Buildings Department be treated as a charge on the rental income. We further recommend that the Corporation while rationalising its accounts procedures, should ensure that—*

> *(i) The amount spent on training activities at all levels is fully reflected under the head "Training Centre Expenses". (At present only the mess charges of the Training College at Nagpur are shown under this head).*
>
> *(ii) The manner of allocating the cost of saleable literature including the cost of the Central Office House Magazine is revised so that the expenses shown under the head 'Advertisements' in the Revenue Accounts discloses a true picture of the publicity expenses. The Accounting procedure should also make it possible to ascertain the extent of 'subsidy' in the case of each item of saleable literature.*

CHAPTER XV

INTERNAL AUDIT, INSPECTION & ORGANISATION AND METHODS DEPARTMENTS

Internal Audit:

15.1. Regulation 46 of the L.I.C. Regulations lays down the following functions for internal audit:—

> "In addition to the audit to be carried out by the Auditors appointed under Section 25 of the Life Insurance Corporation Act, 1956, the accounts of all the Offices of the Corporation shall be regularly audited by the Internal Auditors who shall be full-time employees of the Corporation. A summary of the reports of the auditors shall be placed before the Executive Committee as soon as possible after the close of each financial year.
>
> Provided that in the case of Offices of the Corporation outside India, the Internal Auditors need not be full-time employees of the Corporation."

Set up:

15.2. The Internal Audit Department of the Corporation was set up in 1958. The present arrangement is that the Chief Internal Auditor reports to the Managing Director, and through him, to the Chairman, Executive Committee and the Board of the Corporation. The internal Audit Department at each Zonal Headquarters is headed by an Internal Auditor, and is responsible for the audit work in respect of the offices of the Corporation in the Zone. The Internal Auditor at the Zonal Headquarters is assisted by a Deputy Internal Auditor and a number of Audit Teams. Each team consists of an Assistant Internal Auditor and two Higher Grade Assistants. The teams carry out the verification of cash, stamps, furniture, receipts, etc., at the Branch Offices once a year in addition to carrying out the audit of the Divisional Offices, Zonal Office and the Integrated Head Office Units. The points arising from the audit are discussed with the Head of the concerned Office. The reports are then finalised and forwarded to the head of the Office, the Controlling Office, Zonal Office and Central Office. The Head of the Office submits his compliance report to the Chief Internal Auditor at the Central Office through his controlling office. The Chief Internal Auditor scrutinises the reply and decides whether it is satisfactory and whether any outstanding objection can be dropped. If any issue or objection is serious, it is reported to the appropriate departments at the Central Office for remedial measures and for the information of the Chairman.

15.3.1. *Reports submitted by the Department.*—The Internal Audit Department makes the following reports:—

(1) "Verification" Report.

(2) "Interim" Audit Report.

(3) "Annual" Audit Report.

The verification report is in respect of Branches, Sub-Offices and Centralised Cash Collection Centres, and deals with the verification of the premium and loan interest receipts, stationery, cash, stamps, furniture and other equipments at these Offices. The work of verification is done in about 3 or 4 days and is carried out in each Branch Office once in a year. The audit, as such, of the Branch payments etc. is done only at the Divisional Office where copies of the Branch Cash Books and original vouchers are available.

15.3.2. The Interim Audit Report, which is submitted in respect of each Divisional Office, I.H.O. Unit and Zonal Office deals with irregularities and discrepancies in the Accounts, excess or short payments, wrong payments, etc. This work engages the audit team for about three weeks at a stretch. Three or four such interim reports are made every year in respect of these offices. The types of irregularities usually covered by the Interim Audit Reports are of the following nature:

> Excess payment of commission to Agents and Medical fees to Medical Officers; excess payment of travelling expenses, claims, loans and surrenders; recoveries not realised; failure to maintain proper records for trunk calls, stationery and furniture; failure to follow the Stores Purchase Procedure etc.

15.3.3. The Annual Audit Report, concerning the Zonal Offices, Divisional Offices and I.H.O. Units gives a summary of the important points from the interim reports, comments on the final accounts of the offices, the nature, extent and adequacy of internal control, a review of the budget for the year, and certain statistical data on the performance of the offices during the year, *e.g.*, average medical fees, premium income per policy, comparison of the income and expenses of the year with those of the previous year, explanation of the variations etc. These Reports are made since 1963.

15.4. The function of the Internal Department under the Chief Internal Auditor at the Central Office is to control and co-ordinate the activities of the Zonal Audit Departments and to take follow up action in respect of their reports. Every year, a summary of all the Audit Reports is submitted to the Executive Committee and the Board. Since November, 1967 a consolidated report in respect of each Zone, in rotation, is submitted every month to the Executive Committee.

15.5. A statement showing the growth in the number of Audit Teams Zonewise is given in Appendix 52. A statement of the expenses of the Audit Department from 1958 to 1967-68 is given in Appendix 53.

15.6. *Audit Procedures.*—An examination of the working of the Zonal Internal Audit Department reveals that they have not adopted uniform procedures for audit. There is no uniformity even in the percentage of transactions chosen for test audit. For example, in the Western Zone, the transactions of the Corporation have been divided into four categories, and during the year, every Divisional Office is visited by four different audit teams each covering one of the categories. The relative reports are also presented separately. In other Zones, each audit team is instructed to cover a specified number of offices and they have to audit all the aspects of the work falling under the four categories mentioned above. Thus, one single report covers all the aspects of the work of the office. While all the audit teams concern themselves with test audits, the extent of the check carried out is not always uniform in the Zones. For instance, in the Southern Zone, the quantum to be covered by the audit is not fixed but left to the Audit Officer who conducts the audit. In other Zones, the percentage is fixed according to the type of payments. Again, in the matter of auditing certain types of payments like medical fees, stationery, furniture purchases, travelling expenses bills, etc., considerable variations in the extent of checks were observed. Though standard audit programmes have been prescribed by the Internal Audit Department, the test checking done is not of a uniform extent. Consequently, a comparison of the performance of the various offices is not possible, and if attempted, may not produce a correct picture. *We, thereore, recommend that the nature and extent of the Internal Audit and the manner of presentation of reports should be uniform in all the Divisions. This alone can provide a sound basis for comparing the performance, efficiency etc. of the various offices.*

15.7.1. *Utilisation of statistical data.*—Since 1962-63, the Annual Reports relating to the Zonal Offices and Divisional Offices have included a review of the budget provisions in the light of actual performance and "cost ratio" data for the Divisional Offices. These reports revealed that the new business targets were not achieved by most of the Divisions, and the budget provisions for expenses were exceeded. It was also observed that there were variations between the figures of "new business cost ratio" and "renewal administration cost ratio" worked out by the Internal Audit Department in their Reports and the corresponding figures of the Accounts Department.

15.7.2. We observed that the ratios worked out by the Audit Department were not being put to useful study either by the Audit Department itself or by the concerned offices. It was surprising to note how two different departments of the same institution adopted two different methods and exercised themselves on matters of this kind, when the differing results that were arrived at were neither reconciled nor utilised for any management purposes. This is a glaring case of want of co-ordination in the functioning of these departments. We have no doubt that when any project concerning more than one department is mooted, it would be essential to co-ordinate plans and ensure that the project does not end up in a waste. However, we understand that since 1968, the Internal Audit Department has been asked to adopt the same methods of calculation that

Accounts Department has been using for the calculation of the "Cost Ratios". *We recommend that effective use should be made of the statistical data produced by the Audit Reports and the efficiency/economy of the various offices evaluated.*

15.8. *Audit coverage.*—The Internal Audit described under Regulation 46 of the L.I.C. Regulation is a 'regular' audit. According to the Chief Internal Auditor of the Corporation the concurrent test audits now done meets the requirements of the Regulations. But since Internal Audit today covers only about 10 per cent of the payments under maturity claims, policy loans, commissions, salary payments etc., in the Divisional Offices and about third of the payments in the Zonal Offices under items like loan payments, repayments, furniture and stationery purchases etc., the coverage of the internal audit appears to us to be too low to be of sufficient reliability and utility. We have already pointed out earlier that the Internal Audit of the L.I.C. was intended to be a fullfledged alternative to audit by the Auditor General. We are therefore convinced that the Internal Audit Department should be extended and made much broader if the L.I.C. is to derive full benefits from Internal Audit system for effectively checking the accuracy and reliability of its accounting data, promoting operational efficiency and encouraging adherence to prescribed management policy. *We recommend that internal audit should cover all the transactions of the Corporation except in the case of voluminous recurring payments like Agent's commission, where the extent of check may be reduced depending upon the satisfactory experience in the effectiveness of internal control; even in such cases we will recommend test checks on sufficiently broadbased samples.*

15.9.1. *Merger of Audit and Inspection Departments.*—The need for containing the expenses of management should lead the management to undertake closer studies of functional activities with increasing frequency. Such scrutiny should form part of the review by Internal Audit. The overall aim of the review should be to assist the management in achieving maximum efficiency in the working of the various departments. However, Internal Audit System obtaining in the Corporation today does not fulfil this purpose.

15.9.2. We cannot help feeling that the Internal Audit in the Corporation has been more of a "voucher audit" than efficiency audit. There can be no doubt that internal audit should be efficiency oriented and not be a mere "voucher audit". It should deal with the efficacy and adequacy not only of accounting procedures but also all other procedures in the various departments of the Corporation. Since at present, the procedural aspects are examined by the Inspection Department, we feel that it would be advantageous to combine the Inspection and Audit Departments with a view to achieving uniformity and co-ordination in approach. Such a merger would also reduce the cost of running two sets of establishments and duplicating the work and the tour programmes of the two teams. At present there are 48 Audit Officers and 31 Inspection Officers, making a total of 79 Officers. We believe that the merger can reduce the number of the officers to about 60 if the suggestions that we have made are acted upon. *We, therefore, recommend that both on grounds of economy*

and administrative efficiency, the Internal Audit and Inspection Departments should be merged. If the reports of this Department reveal any shortcomings or defects in the practices and procedures that are being followed, the O & M Department should be asked to suggest the corrective and remedial action that can be undertaken. The Inspection/Audit teams may be stationed at each Divisional Headquarters (under the control of the Central Office) and rotated every 3 years. An additional Higher Grade Assistant may be provided to each team in view of the merger of inspection work with audit work. We further recommend that

> *a team may consist of one Administrative Officer and 3 Higher Grade Assistants for a Division or Divisions with 2 lakhs of policies in force and an additional Assistant for every additional lakh of policies in force. One additional team may also be provided at Bombay and Calcutta to look after the work of the L.I.C. Units at these places. One separate team may be charged with the audit of the Central Office. All the teams will be directly controlled by the Central Office.*

15.10. *Inspection.*—Regulation 47 of the L.I.C. Regulations makes it obligatory that every office of the Corporation should be inspected at least once a year. The Regulation reads as follows:—

> "Every Office of the Corporation in India shall be inspected at least once a year by Inspecting Officers who shall be working under the control and supervision of a Managing Director or an Executive Director. A summary of the report of Inspecting Officer shall be placed before the Executive Committee as early as possible after the Inspection has been carried out."

Apart from this obligation, one of the objects of the periodical inspections is also to enable the controlling office to know how efficiently the various offices are functioning and to keep a watch on the extent to which there have been departures from the prescribed rules, procedures and administrative instructions. The Inspecting Officer studies the state of work and arrears in each Department of the inspected offices. He also makes a sample study of the average time taken for some of the operations. Thus inspection also performs the function of a procedures-audit.

Set up :

15.11.1. The inspection Department of the Corporation comprises of five Inspection wings, one at each Zonal Headquarters, *viz.*, Bombay, Calcutta, Delhi, Kanpur and Madras, each in charge of an Assistant Secy. This Officer is responsible for the inspection of all the offices of the Corporation in his Zone. In this task, the Assistant Secretary is assisted by a team of officers of the rank of Administrative Officer. The strength of the teams in the Zones vary from 3 to 7 officers.

15.11.2. The Inspection Department prepares a questionnaire on the various aspects of the work and procedures that they are expected to study and examines the workload, state of work and matters of procedure in the different offices. They then formulate their findings on these as well as on the time-lags they encounter in various operations selected for sample

surveys. The types of defects normally commented upon in the Inspection Reports relate to delay in issue of policies, acceptance letters, premium ledger posting, settlement of claims, commission payments, despatch of proposal papers to Divisional Offices, submission of T.E. bills etc. arrears in correspondence, ledger postings, payment of bills, compilation of accounts act., heavy time lags in processing claims, loans, and surrender payments, etc., etc. Before the report is submitted the Inspection Officer discusses his findings with the Officer-in-Charge of the Office inspected. He also discusses the underlying causes for the arrears of work and the measures that can be taken to deal with them. The necessity to remove the defects in working and to discontinue the departures from prescribed procedures is impressed upon the Officer-in-Charge. Thereafter, the reports are submitted to the Central Office and copies sent to the controlling office and the Zonal Office. The head of the office submits the compliance report to the Central Office through his controlling office and the Zonal Office indicating the action taken by him and the further action he proposes to take within a specified time to correct the defects that have been pointed out. The controlling office is expected to provide the unit with the guidance and assistance necessary for this exercise. At the Central Office there is an Inspection Co-ordination Department under an Assistant Secretary to review the compliance action. This officer works under the Secretary (Inspection, Organisation and Methods), and the Secretary in turn reports to the Managing Director through the Zonal Manager (Inspection, Organisation & Methods).

15.12 The administrative expenses of the Inspection Department over the various years have been indicated in Appendix 54. However, this table does not include particulars of the salary cost prior to 1.4.1962 and the travelling and miscellaneous expenses of the Inspection Teams at Bombay and the Inspection Co-ordination Department at the Central Office since these were not available. This has made it difficult for us to make a satisfactory assessment of the cost of Inspection.

Performance of the Department :

15.13.1. The ideal that "every office of the Corporation in India shall be inspected at least once a year" laid down in Regulation 47 does not appear to have been achieved in practice till the year 1967. It may not be out of place here to recall what the Estimates Committee and the Committee on Public Undertakings have observed in this regard.

15.13.2. The Estimates Committee (1960-61) has observed that : "Regulation 47 of the L.I.C. Regulations 1959 provides that "every office of the Corporation shall be inspected at least once a year". The representatives of the Corporation stated during evidence that they had found that it was not possible to inspect every office and the Corporation were examining the question of increasing the strength of the Inspectorate. The Committee consider that an inspection of every office should be carried out at least once every year as provided in the L.I.C. Regulations.

The Corporation has prepared questionnaires for each Department of the Branch Office to help the Inspecting Officers in

carrying out the inspection efficiently. Similar questionnaires for Divisional and Zonal Offices were stated to be under preparation."

15.13.3. The Committee on Public Undertakings too has drawn pointed attention to the importance and necessity of inspection. It has said:

"The Committee note that the Inspection Organisation had hitherto inspected only the Divisional Offices, Branch Offices, Sub-Offices, Integrated Head Offices, Integrated Branch Offices and Development Training Centres. It had not inspected the Central Office, the Zonal Offices or the offices in Foreign countries.

During evidence the representatives of the Corporation informed the Committee that offices which were dealing with policyholders servicing got priority in the matter of inspection and since only the Branches and the Divisional Offices were directly concerned with the policyholders and not Zonal Offices and the Central Office, the Inspection of former offices was carried out by the Organisation. The latter category of offices could be inspected after 'stability had been reached.' As regards the foreign offices, there was difficulty in finding funds but they were now sending Inspection Officers to foreign offices also. The Chairman, Life Insurance Corporation assured that the work of Inspection of the remaining offices will be expedited and completed.

The Committee attach great importance to the inspection work and hope that the Inspection Organisation of the Corporation would undertake an early inspection of the Central office and Zonal Offices."

15.13.4. We learn that the first inspection of the Integrated Head Office and Branch Offices Units was done in 1960, and that of the Zonal Offices was done during the year 1965-66. The first inspection of the Central Office was carried out only in 1966-67. Most of the foreign offices were inspected for the first time during the years ended 31st March 1965 and 31st March, 1966, but there have been no subsequent inspections of these offices. *Though inspection of the foreign offices is not mandatory in terms of Regulation 47 of the L.I.C. Regulations, 1959 we feel that regular inspection of these offices is desirable and should be undertaken once a year if foreign exchange situation permits.*

15.14. We believe that since Inspection includes an audit of procedures, there is every justification to merge the Inspection Department with the Internal Audit Department. We have already recommended this in an earlier paragraph of this chapter.

O. & M. Department.

15.15.1. The principal functions that have been assigned to the Organisation and Methods (O & M) Department are:—

(1) simplification and improvement of office procedure;

(2) forms design and forms control;

(3) preparation of work-flow charts and organisational charts;

(4) work-measurement, determination of work norms and assessment of staff requirements;

(5) improvement in and review of the utility of statements and returns submitted by offices to their superior offices;

(6) surveys of office lay-out;

(7) procedures for retention and disposal of records; and

(8) examination of the suitability of different types of equipment.

Set-up :

15.15.2. The O & M Department was set up by the L.I.C. as a study group of Senior Officers in 1962, and as a regular department forming part of the Inspection wing of the Central Office, in 1964. The department is under an Assistant Secretary who is aided by four officers. The Assistant Secretary reports to the Secretary and Zonal Manager who also holds charge of two other departments, viz., Integration and Complaints Department and the Inspection Co-ordination Department. The Managing Director holds overall charge of these Departments. Particulars of the expenses of the Department were not available separately, and it has not therefore been possible for us to assess the cost of this Department to the Corporation.

Performance of the Department :

15.16.1. We shall recount some of the assignments that the O & M Department have carried out upto now :—

(i) The statistical and machine department manual for Divisional Offices, which had been prepared originally at the commencement of the Corporation, was revised extensively, and a new manual was issued by the Department in April, 1965.

(ii) The procedure for determining the strength of Class III staff (excluding Superintendents) in the Divisional and Branch Offices of the Corporation was reviewed in 1968, and a new formula was laid down.

(iii) Studies were made on the work of

(a) the Establishment Department of the Bombay Divisional Office;

(b) the P.H.S. Department of the Ahmedabad Divisional Office and

(c) the Mysore Government Insurance Department, Bangalore.

(iv) In addition to these, the Department considered a number of suggestions that it had received from various sources, and initiated several enquiries. The more important among these

were a study of the working of Centralised Cash Collection Centres, study of the Salary Savings Scheme Department, Simplification of Policy Loan Procedures and a review of the utility of periodical statements and returns.

15.16.2. We have noticed that the revised Machine Manual does not deal with the time-study and work-norms for Machine jobs undertaken in the interest of efficiency and productivity. We have been told that the revision of the Manual was done with the sole object of streamlining the working of the Department and that no special study of work norms was therefore made by the Department.

15.16.3. The new formula for determining the cadre strength of Class III employees (other than superintendents) evolved in 1966 was intended to secure uniformity in the matter of assessing staff requirements. The earlier formula was based on the experience of the best mangaed Division in the Zone. With the application of the new formula, "surplus staff" was disclosed at some offices, but in view of the resistance of staff to any transfer, the "surplus" was allowed to continue on the theory that future increases in the work load would ease out the surplus . At the same time, at offices where there was shortage of staff the Corporation went in for additional recruitment. The revised formula was based on the actual work loads, staff available, etc. during 1964-65, and not on any scientific study or work norms. According to the Executive Director (Personnel) it was only a rough and ready assessment.

15.16.4. The recommendations made in the O & M Report on the Establishment Department of the Bombay Divisional Office could not be implemented since the office felt that it could not be implemented without infringing the "code of discipline".

15.16.5. Similarly, the recommendations made in the case of the P.H.S Department of the Ahmedabad Divisional Office could not be implemented since the Zonal Manager felt that the assumed rates of output were very much higher than the actual output.

15.16.6. The impact of the recommendations made in the case of the Mysore Government Insurance Department is not known.

15.16.7. None of these reports was placed before the Board or any other Committee of the Corporation; nor were they brought to the notice of the Director (Personnel).

15.16.8. We also found that many of the other suggestions that the O & M Department have been considering were still in a fluid stage or were concerned only with minor issues relating to individual offices.

15.16.9. In view of what we have stated, we cannot but feel that the Department set up in 1964 has not been able to achieve anything, nothing much of significance so far. The Department could have undertaken a study of work-norms, time and motion studies of various operations and procedures, etc. to achieve efficiency and economy. In particular, a study and analysis of procedures, and the forms and equipments needed for use could have helped to eliminate protracted procedures. In the course of

the evidence, many officials voiced the feeling that there is ample scope for the O & M Department to achieve substantial benefits in this field. For instance, we were told by the Managing Director that an attempt at rationalising the procedure at the Branch Level showed that about 50 per cent of the forms and statements that were being submitted from the Branch Offices to the Divisional Offices could be elimiated without sacrificing efficiency. We were also told that the L.I.C. could dispense with about 40 per cent of the forms that now go from the Divisional Offices to the Zonal Offices on matters connected with the work of the Development, New Business and Policy Holders Servicing Departments.

15.17.1. The O & M Department is essentially an advisory department. Its effective functioning will depend on full support from the top management and the close co-operation that it receives from other departments. Its recommendations have to be accepted by the Management.

15.17.2. We also feel that the different Departments in the Corporation should be advised and encouraged to have prior consultations with the O & M Department before introducing new procedures or amending existing procedures for the work of their Departments. It may also be necessary to examine the advantages that may be gained by giving up or abridging the present hierarchical system of reporting and adopting a system in which officers above a certain level are encouraged to work independently and report directly to the management. Since most of the jobs undertaken by the O & M Department would have an impact on personnel and equipment, the Department will function more effectively if it is placed under the Director (Personnel). *We, therefore, recommend that the O & M Department should be reorganised and placed under the Executive Director (Personnel); that it should work in close collaboration with all the different departments in the Corporation with a view to rationalising and simplifying procedures and assessing the personnel requirements of each Department and office at various levels on the basis of a scientific study of work-norms, cadre-strength, etc.*

Work-Programme :

15.18.1. There is another aspect of the functioning of the O & M Department which needs consideration. The Department should formulate plans of work and select topics of study on its own initiative as well. While drawing up these plans, priority will, of course, have to be given to important areas in which the need to economise and the scope to realise tangible benefits are most apparent. We feel that one such important study which should engage the immediate attention of the O & M Department is a work-measurement programme with the co-operation of the staff. This will help in the determination of the work norms for various jobs and form the basis for determining the personnel requirements that would be needed to cope with expanding work. This, in turn, will enable the Corporation to keep staff requirements under control on the basis of the work load that has to be carried at different times. The increase in productivity that will result from this is bound to reduce the administrative costs of the Corporation. Moreover, such a study will make available an objective and reasonably accurate assessment, as distinct from assessments based on individual judgements, of the efficiency and output of staff members. The need for such objective standards is urgent since the supervisory personnel

at all levels require a clear idea of the present level of the output and efficiency of the staff and the measures that can be taken to improve them. Such norms or standards will also help in achieving a more effective and equitable allocation of work, in making inter-departmental transfers to cope with variations in the flow of work from time to time, in selecting staff for promotions, etc. In this task it is essential to secure the co-operation of the members of the staff. The members of the staff should, therefore, be persuaded to appreciate the fact that the output records are to be used only for the purpose of effecting improvements, and not for punishing or penalising anybody.

15.18.12. There appears to be an impression that clerical work cannot be measured like the output of an industrial worker. Modern techniques have made this possible at least in the case of routine work. The following extracts from the White paper published by the Prices & Incomes Board of Great Britain (Command 3674 HMSO) will be of interest in this context.

> "Clerical work should not be immune from work measurement techniques even though the problems may be greater than with industrial workers. . . .many of the operations in the insurance industry are measureable and the growing volume of work can be accomplished without a proportionate increase in members and need for extra recruitment."

We, therefore, recommend that the O & M Department should draw up a programme of studies and assessments, giving priority to work measurement and the determination of work norms.

15.18.3. We are of the opinion that, in course of time, the O & M Department should also develop and operate a scientific system of cost analysis and cost control. This will lead to more elaborate and improved methods of budgeting and will be of immense use in the calculations of premiums and valuation. *We recommend that the O & M Department should develop a scientific system of cost analysis and cost control.*

CHAPTER XVI

PREMIUM RATES

16.1. We often hear that the rates of premium charged by the L.I.C. are high, and capable of sustaining substantial reduction. It is argued that the benefit of the improvement in mortality and the rate of interest should be passed on to the policy-holders in the form of a reduction in premium rates. This would make life insurance cheaper and therefore popular and within the reach of a larger number of people. We shall consider this question at some length since we know that this question is of vital concern both to the Corporation and the insuring public.

Historical background.

16.2.1. During the days before nationalisation, insurance companies were competing with each other for securing life insurance business. Till 1954 the rates of premium of most of the leading insurers were based on a table of mortality obtained from the experience of male lives assured with "Oriental' during the years 1925-35. This table of mortality is known as the O (1925-35) Mortality Table.

16.2.2. In 1954 many insurers in India reduced their premium rates. They adopted a hypothetical Mortality Table, that incorporated suitable modifications in the O (1925)-35) Table, to allow for the known improvement in mortality upto 1953-54. The new premium rates were based on this hypothetical table which has come to be known as O Mod. (25—35) table. The rate of interest adopted for the major classes of assurance by "Oriental', the leading Company prior to nationalisation, was 3 per cent.

16.2.3. When Life Insurance was nationalised in 1956, it was decided to adopt for future new business the premium rates of the 'Oriental', after reducing them by Re. 1 per thousand sum assured, or 5 per cent of the premium whichever was lower. This reduction appears to have been more in the nature of a gesture to the insuring public to herald the nationalisation of life insurance.

16.2.4. The Estimates Committee, 1960-61 (Second Lok Sabha) that studied the premium-rates of the Corporation observed as follows:

> "The basic elements that enter into the computation of premium rates are the rate of mortality, yield from investments, and expenses of an insurer. The experience of the Corporation in these matters has been very favourable. The Committee feel that in the nationalised set up, the premium rates should not be any higher than are warranted by strict actuarial considerations. The continuation of old rates by the Corporation, therefore, calls for reconsideration. One of the tests of the successful working of the Corporation is the long-term reduction it can effect in its expenses and consequent

> reduction in the rates of premia. Government in reply to S.Q. No. 1062 on 23rd March 1961 stated in the Lok Sabha that L.I.C. will examine the question of reduction of premium rates in due course. The Committee consider that the time has come for such an examination. They recommend that a committee of experts consisting of the Controller of Insurance, representatives of the Corporation and independent actuaries may be set up to review the rates of premia offered at present by the Corporation." (Page 26 of the Report of the Estimates Committee (1960-61).

16.2.5. The Government, however, did not accept the Committee's recommendation. It was of the view that the question of the revision or premium rates should be taken up only after the Corporation had gained some more experience of the trends. But the Estimates Committee did not accept the Government's reply and reiterated their earlier recommendation in a subsequent report:*

16.2.6. The Committee on Public Undertakings (Third Lok Sabha) also considered the Corporation's premium-rates, and came to the following conclusion:

> "The Committee consider it regrettable that the recommendation of the Estimates Committee made in 1961, and reiterated in 1963 remains unimplemented. They feel that the premium rates which were fixed in 1956 are on the high side, and call for an immediate revision. As for the Corporation's stand that they were awaiting the results of mortality investigations, the Committee feel that there was enough evidence to believe that the mortality rate has gone down. The raising of the age of retirement of the Central and State Government servants is an indication of this fact. They, therefore, recommend that the Corporation should immediately appoint a Committee of Experts consisting of the Controller of Insurance, representatives of the Corporation and independent actuaries to review the rates of premium offered by the Corporation with a view to bringing them down." @

Present Position:

16.3. We learn from the Corporation that they have made a mortality investigation of male lives assured with them during the year 1961 to 1964. In this Chapter, we shall refer to the mortality table based on this investigation as the L.I.C. (1961-64) table. In November 1966, the Corporation constituted a Committee of Actuaries consisting of Senior Officers of the Central Office and a member from the Office of the Controller of Insurance, to study the results of the investigation into the mortality of lives assured during 1961 to 1964 and advise the Corporation on the question of revising premium rates. The Committee of Actuaries appointed by the L.I.C. held several meetings in 1967 to discuss the report of this Committee. We learn that the report of the Committee of Actuaries is now being considered by the Corporation.

*41st Report of the Estimates Committee (1963-64).

@Page 23 of the Report of the Committee on Public Undertakings, 1965.

Actuarial Considerations :

16.4.1. While constructing a set of premium rates the following foctors have to be considered and the bases relating to them fixed: (1) Mortality, (2) Interest & Taxation and (3) Expenses.

16.4.2. Before considering the necessity for a revision of the premium rates one has to examine whether any of these factors has registered a change since the construction of the last set of premium rates, and if so, whether the change is likely to continue for a fairly long time. Changes which are of a temporary nature do not call for any revision of premium rates, but are allowed to express themselves in the fluctuating experience from year to year.

Mortality :

16.5.1. Let us now consider the first of the three factors we referred to *viz.,* mortality. It is known that mortality has improved, and it is accepted that this improvement is permanent. In fact, it is expected that there will be further improvement in the future. The figures in the following two tables, the first of which relates to the whole male population and the second to the male assured lives, clearly illustrate these known facts about mortality.

16.5.2. It has been customary to prepare a mortality table based on the latest experience of the whole population at the time of each census. These tables give the rates of mortality a verious ages. If, according to a mortality table, out of 1000 persons aged 45, four die on an average before reaching 46, then the rate of mortality at age 45 is said to be .004. Table 1) below gives the rates of mortality at the various ages in Column (1) for males according to the population mortality tables prepared at the time of the 1931, 1951 & 1961 censuses. Table (2) below gives the rates of mortality applicable to the male assured lives according to O (1925—35), Mod. O (1925—35) and L.I.C. (1961—64) tables.

TABLE 16·1—*Whole Population—Males*

Age	1931 Census	*Rates of Mortality* 1951 *Census*	1961 *Census*	Col. (4) as a percentage of Col. (2)
(1)	(2)	(3)	(4)	(5)
. .	·01630	·01197	·00625	41
5 . . .	·02410	·01704	·01238	51
45 . . .	·03490	·02482	·02323	67
55 . . .	·04810	.04222	·03836	80
65 . . .	·07270	·07745	·06390	8

TABLE 16·2—*Assured Lives—Males*

Age	o(25—35)	Rates of Mortality† Mod. o(25—35)	L.I.C. (1961-64) (1961-64)	Col.(4) as a percentage of C
(1)	(2)	(3)	(4)	(5)
25	·00428	·00300	·00100	23
35	·00552	·00386	·00144	26
45	·01176	·00823	·00390	33
55	·02903	·02130	·01094	38
65	·06039	·5835	·02854	47

*These rates of mortality are what are known as ultimate rates, i.e, those applicable to the period after a certain number of years, 1 in each of the above cases, has elapsed since initial medical examination.

The census year very nearly corresponding to the period 1925—35 of the O (1925—35) table is 1931. In order to illustrate the difference between the mortality of the assured lives and that of the whole population at nearly the same time, the population mortality table for the census year 1931 is taken in Table 16·1 above as against the mortality Table 0 (1925—35) in Table 16.2. Similarly the population mortality table for the census of 1961 in Table 16.1 can be approximately taken as comparable to the L.I.C (1961-64) table for assured lives in Table 16.2. With a view to giving an idea of how mortality is changing in course of time, the rates of mortality according to the population table for the 1951 census and Mod.O(1925-35) Table for assured lives are also given above.

16.5.3. The figures in Table 16.1 and 16.2 show that—

(i) The population mortality is always heavier than the corresponding mortality of the assured lives. (Compare the figures in Cols.(2) and (4) of Table 16.1 with the correspon-ding figures in Table 16.2.

(ii) The improvement in Mortality is a continuous process both for the total population and for the assured lives, except that at higher ages the mortality rates according to the 1951 census table were higher than those for the 1931 census table. (Compare as between themselves the figures in Cols.(2), (3) & (4) in Table 16.1 and also similarly the figures in Table 16.2).

(iii) The improvement in mortality is proportionately larger in the case of assured lives than in the case of the whole population, particularly at the older ages. (This is borne out by

†This feature is often referred to as 'secular improvement'.

the smaller percentages in Col.(5) of Table 16.2 as compared to corresponding percentages in Table 16.1. Broadly speaking, the former are about half of the latter.)

Continuous improvement in the mortality of the whole population as well as of assured lives is therefore an established fact.

16.5.4. While constructing premium rates for the ordinary policies of the L.I.C., it is obvious that a table showing the experience of the assured lives has to be used. For the compulsory group term insurance scheme for the industrial population that we have recommended in Chapter VI, a table showing the mortality of the industrial population, if one such is available, or, in the alternative, a population mortality table may have to be used. The question of the revision of premium rates which is currently being discussed however, refers only to ordinary policies, and therefore, in its context, a table applicable to assured lives alone is appropriate. Being the latest such table available, the L.I.C. (1961—64) Table is a suitable mortality table for the revision of premium rates at the present time.

16.5.5. However, there is a volume of opinion that holds that the improvement in the mortality of the assured lives is really not so high as that indicated by the L.I.C. (1961—64) Table. These doubts are based on differences about the extent of reliability of the data collected, and the possibility that some deaths might have remained unreported. As against these doubts, it may be said that such deficiencies are more or less common to all investigations and can have only a marginal effect on the results disclosed by them. Moreover, even according to the theory of secular improvement in mortality, there must have been some further fall in the mortality rates during the last 5 years since the data were collected. The deficiences that have been pointed out need not, therefore, affect the appropriateness or utility of the L.I.C. (1961—64) Table.

16.5.6. There are some who argue that when life insurance spreads among people of lower economic strata, the present mortality experience applying to people of comparatively better econocim status may not hold good. As insurance spreads, the insured population will come nearer and nearer to the total population and thus the difference between the mortality rates of the two sections of the population will diminish. This is a very slow process. But, there is also a counter process that goes on, and that is of continuous improvement in mortality rates with the passage of time. Perhaps, the counter process is stronger as indicated by a comparison of the figures in columns (2) and (4) of Table (2), which show the resultant effect of both the processes. Insurance has of course spread more widely in 1961—64 than in 1925—35; but the L.I.C. (1961-64) rates are substantially lower than the O (1925—35) rates. *On the whole, therefore, it seems to us that the L.I.C.* (1961—64). *Table is suitable as a mortality basis for revising the current rates of premium; though at least for some time to come, there may not be adequate margin for adverse fluctuations from this table.*

16.5.7. We may point out that in the U.K., mortality investigations are made under the auspices of the Institute of Actuaries and the Faculty of Actuaries. The actual work of investigation is entrusted to a joint

committee of these two bodies. It may be argued that the conditions in the U.K. are different since there are many insurers there, and therefore the task of conducting a mortality investigation has to be entrusted to an outside agency like the joint committee of the two professional bodies, if the results of the investigations are to be generally acceptable. The conditions here are no doubt different. It may, therefore, be argued that the mortality investigation here can very well be conducted by the Actuarial Department of the L.I.C. itself. There is, however, some advantage in such investigations being made by an independent, objective, professional body of experts. A mortality investigation is a matter of considerable complexity. If it is made jointly by a number of actuaries meeting in a committee, the results are bound to command a greater degree of professional acceptance. Again, a mortality table is now required not only for the actuarial needs of the L.I.C., but also for various other purposes, like the setting up of a private gratuity fund, assessment of certain interests to wealth tax, etc. This can happen only when the therefore, command general acceptance. This can happen only when the principles of investigation and the methods of graduation to be adopted have the widest possible support among experts. *We, therefore, recommend that the present practice of having a periodical investigation into the mortality of assured lives by the Actuarial Department, of the L.I.C., may be continued, but the principles of investigation and methods of graduation to be adopted may be finalised after these are discussed at a meeting of the Actuarial Society of India.*

Interest and Taxation.

16.6.1. As in the case with mortality there has been a steady improvement in the case of interest as well. The gross and net yield on the mean life fund of the Corporation for the years from 1958 to 1967-68 are given in the following table. These figures show that there has been a rise in the rate of interest earned by the Corporation.

TABLE 16.3

Year	Gross Yield. on Mean Life Fund %	Net Yield. on Mean Life Fund %	(3)/(2) as percentage
(1)	(2)	(3)	(4)
1958	4.52	3.52	77.9
1959	4.54	4.08	89.9
1960	4.58	3.55	77.5
1961	4.80	4.68	97.5
1962-63	4.76	4.08	85.7
1963-64	5.11	4.07	79.6
1964-65	5.27	4.90	93.0
1965-66	5.51	4.76	86.4
1966-67	5.76	5.29	91.8
1967-68	5.88	5.18	88.1

16.6.2. The yearly fluctuations in the last column of the table are a result of the disparities in the amounts of refund of income tax recovered from year to year. Broadly, about one-seventh to one-eight of the gross income is required for payment of tax. Though the rate of tax applicable to the L.I.C. is at present 52·5 per cent, the taxable quantum is (i) interest less expenses or (ii) average annual surplus, whichever is higher. In the latter case 80 per cent of the surplus distributed to the policyholders is deductible in computing the taxable income. In effect, the taxable amount has been less than the gross interest, and therefore, the total tax paid, though it is 52·5 per cent of the taxable amount, is only about 13 to 14 per cent of the total gross interest. Of course, the possibility of a change in the rate of tax is always there. Actually, it has increased twice since the inception of the Corporation.

16.6.3. While determining the interest basis for the premium scales what is appropriate is the future yield on new investments and the consequent change in the future yield realised on the mean life fund. Any estimates for the future can, however, be made only on the basis of the experience of the past and the trends for the foreseeable future. As an index showing the variation in the yield on new investments made from year to year in the past, we may take the gross yield on the 3 per cent 1896-97 loan. The following table gives this yield on the basis of the average of the highest and the lowest market prices during each of the following years:

TABLE 16·4

Year	Gross Yield (%) on mean price during the year.
1946	2·93
1947	2·94
1948	3·02
1949	3·04
1950	3·08
1951	3·40
1952	3·74
1953	3·64
1954	3·68
1955	3·73
1956	3·92
1957	4·15
1958	4·16
1959	4·10
1960	4·10
1961	4·12
1962	4·26
1963	4·67
1964	4·81
1965	4·68
1966	5·17
1967	5·69
1968	5·15

16.6.4. The gross yield on the mean life fund is greater than the corresponding gross yield on the 3 per cent loan 1896-97 for each of the years from 1958 to 1967-68, taking the financial years from 1962-63 onwards as corresponding to the calendar years from 1962 onwards. This is seen by a comparison of the figures in the last column of the "3 per cent Loan 1896-97" table with the second column of the previous table. The reason for this is obvious. Only a part of the total funds of the L.I.C. is invested in Government securities, the other part being, on the whole invested in a more remunerative manner.

16.6.5. The second table shows that though there has been a gradual rise in the yield, from around 3 per cent in 1946 to around 4 per cent in 1962, followed by a steeper rise upto 5.69 per cent in 1967, there has been a fall in the last year. The two highest rises and the highest fall from one year to the next have occured in so short a period as from 1965 to 1968 out of the fairly long total period of 23 years. In view of the latest fall in the yield and the comparatively large changes in the recent years one has to take a cautious view of the future.

16.6.6. It has to be borne in mind that in an economy like ours it will be very difficult to predict, accurately, the rate of interest that is likely to be earned in the future. To cite a very recent illustration, the bank rate in our country was reduced from 6 per cent to 5 per cent on 2.3.1968. *On the whole, it appears that though there has been an improvement in the rate of interest over the years the full extent of this improvement cannot be assumed in the calculation of the premium because of the recent fall in the rate of interest and uncertainty for the future.*

16.7.1. The third factor, expenses, appears to be much more elusive. The expenses of the Corportion have increased during the recent years whatever be the standard of measurement, as can be seen from the following figures: (See Tables 2.4 & 2.5 of Chapter II).

TABLE 16·5

Year	Budget Method		Actuaries' Method		Rule 25(*b*)	
	New Business Cost Ratio %	Renewal Cost Ratio %	New Business Cost Ratio %	Renewal Cost Ratio. %	Assumed new Business Expense Ratio %	Renewel Expensas Ratio
1963-64 . .	62·82	18·11	71·14	15·90	84·19	12·46
1964-6 . .	65·93	18·43	76·61	15·87	84·18	14·09
1965-66 . .	66·30	18·69	78·20	15·94	83·74	14·69
1966-67 . .	67·43	19·34	81·36	16·18	83·67	15·91
1967-68 . .	66·71	19·34	81·16	16·32	83·25	15·90

NOTES : (*i*) The figures in the last but one column are *assumed* new business expenses ratios on the basis of which the renewal expenses ratios are calculated.

(*ii*) The new business cost or expense ratios are related to the total first year premium income including single premiums and considerations for annuities.

(*iii*) Certain expenditure pertaining to the ear 1967-68 is incurred subsequently to the closure of the ccounts for that year and is therefore not accounted for in the ratios for that year.

16.7.2. It is clear that the expense level of the Corporation has been rising continuously, whether it is measured by one or the other of the cost ratios or by the renewal expense ratios. One of the reasons for this encrease in expenses is inflation. One cannot be sure of the future course of inflation or of its impact on the expenses of the L.I.C. Whether the cost ratios too will increase depends upon the likely growth in the premium income either as a result of inflation itself or due to reasons unrelated to inflation. In this report itself we have recommended a number of measures of economy. It is, therefore, difficult for us at present to estimate the level at which the expenses of the Corporation are likely to stabilise in the future. Under the circumstances, it becomes very difficult to estimate the provision that should be made in the premium for future expenses. If we make the provision at the present level, it may soon prove to be inadequate if the level of expenses rises further. A practical solution would appear to be to provide at a somewhat higher level than the present, and adopt immediate measures of economy, so that even if the expense level increases further it may not exceed the level provided for.

16.7.3. One decision that will have to be taken is about the cost or expenses ratios that are to be provided for in the premiums whether it will be one formulated according to the budget or the actuaries' method, or according to Rule 25(b). If the distribution of new business over different plans, ages at entry and terms remains unchanged, the overall provision may be the same on the basis of any of these methods. However, as between the different plans, etc. these methods will produce different results. If, therefore, equity is to be preserved between policyholders who take different types of policies, or insure themselves at different ages, a decision as to which method of analysis is correct becomes necessary. We have already recommended that periodical investigations should be conducted to arrive at as accurate and detailed analysis as possible. Once these investigations are initiated, expenses can be so provided for in the premiums as to secure a fair degree of equity between different policy-holders.

With Profit Policies:

16.8.1. There is yet another problem that arises in the case of with profit policies, viz. for what bonuses should future premiums be loaded. The Corporation is at present declaring bonuses at the rate of Rs. 16 per thousand sum assured for Endowment Assurances, and Rs. 20 per thousand sum assured under Whole Life Assurances, whereas the premiums are loaded for bonuses at the rate of only Rs. 8 and Rs. 10 respectively. The level of bonuses to be loaded in the new premiums will depend upon the margins available in the mortality, interest and expense assumptions and the desired level of future bonuses. If the current mortality and interest experience are to be allowed for in a new scale of premiums, and if at the same time the present rates of bonuses are to be maintained, it is extremely doubtful whether any worth-while reduction can arise under with-profit policies.

16.8.2. The bonuses declared by the Corporation at present are much lower than the bounses declared by insurers in the U.K. and the U.S.A. There are quite a few who would therefore argue that instead of attempting

to reduce the premium rates now, we should attempt to bring the level of bonuses to an internationally acceptable level, *i.e.* a level that is comparable to what obtains in the U.K. and the U.S.A. at present. It is not, of course, being suggested that premium rates should be increased to provide for higher bonuses, but that positive efforts should be made to improve the expense-experience of the Corporation so that the present rates of premium themselves yield higher bonuses.

Without Profit Policies:

16.9. The question of revision without-profit rates requires special consideration. It is not possible to be exact in forecasting the expected future experience in the various factors that constitute the basis of the premium rates. Nor do the without-profit scales of premium contain any cushion like the bonus loading in with-profit policies. A larger margin for fluctuation has, therefore, to be provided for in determing the basis for mortality, interest and expenses in the case of without-profit policies. However, in view of the improvement that can be seen in mortality and interest, it appears that even if a higher provision than what has been made in the current premium scales is to be made, it will be possible to lower premium rates if a more reasonable or realistic basis is used.

16.10. While taking a decision on the question of revising premium rates, for policies with-profit or without-profit one cannot ignore the fact that a reduction in premium rates will benefit only new policyholders. The question then arises of providing a compensating benefit to existing policyholders by increasing the sum assured or though some other means. If the scheme of revision fails to provide any such compensating benefit to any class of existing policyholders, it is likely that many of these policies will be discontinued, and new policies taken in their place, thus making the Corporation incur once again higher initial expenses for commission, medical fees etc.

Effect on Premiums:

16.11.1. We do not think we can indicate any specific extent to which the current with-profit rats can, if at all, be reduced in the light of the present expecience. Of the four factors, mortality, interest expenses and bonus, we can arrive at a fairly definite conclusion only in the case of mortality and interest. In the case of both of these factors, it can be said that experience favours a reduction in the rates. Expenses and Bonus are factors that contribute to an increase in the rates and these are the very factors about which we find it difficult to make a definite estimate for reasons that we have already explained.

16.11.2. If expenses and bonus are ignored, as they are in what are technically known as net premiums, then, the extent of reduction resulting from mortality and interest can perhaps be estimated. The following tables show the net premiums on the L.I.C. (1961-64) table at a higher rate of interest, say 4 per cent, than the present 3 per cent, alongwith the same type of premiums on the present basis, that is Mod. 0 (1925-35) 3 per cent. The first table deals with Whole Life Assurances and the second with Endowment Assurances. Columns (2) and (3) of the Tables give net premiums for sum assured of Rs. 1,000 and column (4) gives the difference between them.

TABLE 16·6

Whole Life Assurances

Age at Entry	Mod. o(25—35) 3%	L.I.C. (1961-64) Ultimate 4%	Difference
(1)	(2)	(3)	(4)
	Rs.	Rs.	Rs.
20	11·38	6·61	4·77
30	16·83	10·05	6·78
40	25·46	16·01	9·45
50	40·93	26·32	14·61
60	69·18	44·52	24·66

TABLE 16·7

Endowment Assurances.

Age at Entry	Term	Mod o(25—35) 3%	L.I.C. (1961-64) Ultimate 4%	Difference
(1)	(2)	(3)	(4)	(5)
		Rs.	Rs.	Rs.
40	10	88·02	81·63	6·39
50	10	93·23	84·48	8·75
60	10	109·28	91·94	17·34
30	20	38·62	33·30	5·32
40	20	41·60	35·00	6·60
50	20	50·84	39·78	11·06
20	30	22·60	17·97	4·63
30	30	24·15	18·83	5·32
40	30	29·33	21·66	7·67

16.11.3. It is necessary to emphasise that the last column in these tables is only of academic interest. Net premiums are only a part of the premiums actually payable by the policyholders, (known as office premiums).

The remainder of the office premiums is made up of the provision for expenses and bonuses. It is in this remainder that current experience indicates an increase. So, the fact that the net premiums can be decreased in the light of the present experience does not enable us to conclude that the total office premiums can also be decreased.

Practical Steps:

16.12.1. So far we have dealt only with actuarial and other technical considerations. We now come to the practical steps that we can recommend in the light of these considerations and the prevailing circumstances.

16.12.2. In dealing with the contention that the benefit of improvement in mortality and interest should be passed on to the policyholders in the form of a reduction in the rates of premium, it should first be pointed out that the benefit is already being passed on to with-profit policyholders in the form of bonuses. One may argue that bonuses have not increased proportionately to the improvement in mortality and interest. But this is the result of the increase in expenses, and not of unwillingness to pass on the benefit to the with-profit policyholders. This increase in expenses is not going to disappear just because the premium rates are lowered for the with-profit policies. Other steps, other remedies will have to be taken to bring down these expenses and if these steps prove successful, a higher rate of bonus will emerge even with the present rates of premiums. In any case, it appears to us that lowering the premium rates cannot be the remedy for securing higher bonuses, unless the reduction in the premium rates is by itself going to improve the expense-experience. There are some who hold that a reduction in the premium rates will increase business so substantially that the net effect will be an increase in premium revenue, leading in turn to a reduction in the cost ratios. We do not agree with this view, and we have explained our reasons in details in the later paragraphs of this chapter. We do not therefore feel that a downward revision of with-profit premium rates is the only way in which the benefit of improvement in mortality and interest can be passed on to the policyholders.

16.12.3. There are some other considerations too which affect the revision of the with-profit premium rates. If the bonuses presently declared are too high and, in effect, make the cost of a cover against early death too high, the with-profit premium rates will have to be reduced to restore a proper balance between the amount of bonus and the sum assured. At present the Corporation declares bonuses at the rate of 16 per cent per annum and 20 per cent per annum under Endowment Assurances and Whole Life policies respectively. As against this, companies in the U.K. are at present declaring bonuses in the neighbourhood of 40 per cent per annum. The present bonuses of the Corporation cannot, therefore, be considered too high according to the generally accepted standards to-day. A reduction in the with-profit premium rates on this ground does not therefore seem to be called for.

16.12.4. It is also suggested by some experts that the present improvement in mortality and interest has made the present rate structure inequitable as between various ages at entry and terms; and therefore, on this ground a revision of the premium rates has become necessary, even though it may not result in an all-round reduction. This it too technical a problem

for a Committee like ours to consider, and we, therefore, feel that we should leave it to be considered by technical experts. *On the whole, therefore, we do not feel it is advisable to effect any immediate reduction in with-profit premium rates. This question may be taken up as soon as the expenses are stabilised.*

16.12.5 As far as the premium rates for without-profit policies are concerned, we agree that the benefit of improved mortality and interest yield is not being passed on to the policyholders paying premium at the current rates, and on this account a reduction in these rates is called for. But the question that arises for consideration is about the level of expenses that has to be assumed in calculating the new premiums. There is a view that the present high level of expenses has come to stay. However, it appears to us that on the basis of the present high level of expenses, or even of a somewhat higher level, there is some scope for reducing these premium rates. We cannot prescribe any exact percentage of reduction. We can only say that the Corporation should determine this percentage in the light of the expense provision they consider necessary in a new scale of without profit premium rates and, after taking into account all the other factors that are relevant to the question.

16.12.6. As we have already poined out, a reduction in the premium rates benefits only new policyholders, whereas the existing policyholders who have contributed to the creation of the favourable circumstances making the reduction in the rates possible, do not get any benefit out of it. This is obviously inequitable. It is, therefore, necessary that the existing without-profit policyholders also are given a compensatory advantage from the improved mortality and higher yield, say, by an appropriate increase in the sum assured. *We, therefore, recommend that the Corporation should consider a suitable reduction in the premium scales or without-profit policies: and simultaneously consider an increase in the sum assured under existing without-profit policies, to the extent actuarial considerations justify.*

Impact on Expense Ratio.

16.13.1. Before we consider how a reduction in the premium rates is likely to affect the other factors that influence the expense ratio, it may be advisable to recall how the reduction itself is likely to affect the expense ratio. For the same amount of total new business with the same distribution over different plans, ages at entry and terms, a reduction in the premium rates would mean a lower first year premium income in the year of reduction. This would lead to an increase in the new business cost ratio. In each year after the reduction, the full effect of the revision will be felt on the first year premium income, and hence the new business cost ratio will remain at a higrer level. So far as the renewal premium income is concerned, the effect of reduction will be felt only from the next year, and that too gradually, since in the second year after revision only the renewal premium for the previous year's business will be received at the reduced rates. The effect on the renewal premium income will thus be gradual, the reduction in it, (as compared to what it would have been but for the decrease in the premium rates) being larger and larger year by year. Thus the renewal cost ratio will also go on increasing. The position, however, is not so simple as this; for, other factors do not remain the same as we have assumed in this discussion.

New Business:

16.13.2. A reduction in premium rates may increase new business, perhaps even to the extent of increasing the first year premium income in spite of the reduction. Similarly the overhead cost ratio may be reduced by an increase in the number of new policies issued. We must make it clear that the increases in new business and number of new policies that we refer to are genuine increases, and not those that result from twisting. We are aware that an artificial increase in new business can be shown by allowing recontly issued policies to lapse or be convedted into paid-up polices, and issuing new policies in their place, at the reduced rates. But such an artificial increase only leads to an adverse effect on the expense ration.

Problem of re-entry:

16.13.3. In 1954, as also in 1956, when premiums were reduced there was a tendency for policyholders to lapse their earlier policies or make them paid-up, before or after taking new policies at the reduced premium rates. At present, the L.I.C. does not issue new policies within three years of an earlier policy being made paid-up or allowed to lapse. This does act as a deterrent for people who make their old policies lapse or "paid-up", and attempt to re-enter at reduced premium rates. However, this restriction that the L.I.C. has imposed cannot act as a deterrent for those who first take new policies, and then allow their old policies to lapse or get paid up. In order to discourage people from taking such a step, insurers sometimes increase the sum assured under the policies issued before the revision of premium rates (as the Postal Life Insurance has done) or declare higher bonuses on policies issued before the revision. In-spite of all these steps, some re-entries do take place because of the reduction in the rates, and consequently some earlier policies do lapse or get converted into "paid-up" policies. Any increase in the proportion of these paid-up policies will mean an increase in the expense ratio as well, because certain policy servicing functions will still have to be performed for these policies, even though premiums are no longer being paid under these policies. Moreover, as we have already pointed out, re-entries also lead to heavier initial expenses.

Average Sum Assured:

16.13.4. An expense ratio is calculated by relating the operating cost to the premium income. The cost generally depends upon the number of policies. In other words, the cost ratio can be considered as the ratio of average cost per policy to the average premium per policy. The average cost per policy may decrease with a reduction in the premium rates if the reduction leads to the issue of a large number of policies and a consequent reduction in the per policy overhead cost. The average premium per policy may be considered as a product of two factors, namely, the average sum assured per policy and the average premium per unit sum assured. The latter factor diminishes when premium rates are reduced. There will, therefore, be a corresponding reduction in the average premium per policy unless the average sum assured per policy increases to a corresponding or larger extent. But there are strong reasons to doubt whether reduction in the premium rates will lead to a substantial increase in the average sum

assured per policy. Proposers are broadly attracted by insurance either because they wish to purchase a specified amount of life insurance cover or because they wish to invest a specified sum in life insurance to derive the benefits of rebate income tax and other taxes. In the case of those whose primary motive is to obtain a specified life cover, a reduction in premium rates may not induce them to go in for a policy for a higher sum assured. In the case of those whose primary motive is to invest a specified sum and earn eligibility for tax rebates, a reduction in the premium rates will increase the sum assured per policy to a corresponding extent. There is also a third category of persons, *viz.*, those who are unable, at present, to purchase the desired amount of life insurance, becuse the rate of premium is too high. As far as this category of persons is concerned, a reduction in the premium rates might increase the average sum assured. But if this is to happen on a sufficiently large scale, the reduction in the rates will also have to be substantial. There will no doubt be some proposers who might not have found it possible to insure themselves but for the reduction in the premium rates. They will probably go in for small sums, and therefore, their entry may lead to a decrease in the average sum assured.

16.13.5. As far as the existing policies are concerned, the average sum assured under them remains unaltered. Even if the cumulative effect of all the four categories of persons referred to in the preceding paragraph results in an increase in the average sum assured per new policy, it will take a long time for this increase to lead to an increase in the average sum assured per existing policy. Again, even if we assume that there is an increase in the average sum assured both in new business and in the existing business, it will still remain to be seen whether the increase is sufficient to produce an increase in the premium per policy.

Net Effect:

16.13.6. It is therefore very difficult to predict the net effect of the reduction in premium rates. The crucial questions that arise are the following: Will the reduction lead to a particularly large increase in the number of new policies issued and/or the average sum assured per policy? If so, what will be the extent of these increases? Will it be enough to cause a substantial increase in the premium income or a substantial diminution in the per policy overhead cost ratio? If the answers to these questions are in the affirmative, one may conclude that a reduction in the premium rates will have a favourable effect on the expense level. If the answers are in the negative, one cannot conclude that the effect on the level of expenses will be favourable. It is, therefore, clear to us that a reduction in premium rates will not automatically lead to a reduction in the cost ratios.

CHAPTER XVII

AUTONOMY AND PUBLIC ACCOUNTABILITY

Establishment of L.I.C. under an Act of Parliament:

17.1.1. The Life Insurance Corporation of India is a Public Undertaking that has been established by an Act of Parliament. The Corporation, therefore, belongs to the category of undertakings that have received the specific approval of Parliament both for their coming into being and for the statutes under which they are expected to function. Though all Undertakings that function in the Public Sector are State Undertakings, Corporations that are set up by an Act of Parliament have the added authority of imprimature of Parliament for their objectives as well as their autonomy. It is normal that when the Parliament considers a Bill to set up a Corporation there is a public debate, at the highest level conceivable in a Parliamentary Democracy, on the necessity and advisability of setting up such a Public Corporation, of the expectations that the Government and the public have from such a Corporation, of the social objectives that the Corporation is expected to serve, of the financial results that are expected from the Corporation and of the extent of autonomy that the Parliament is to confer on the Corporation to free the Corporation from bureaucratic red tape and carry on the commercial, industrial or economic business entrusted to it on the basis of sound business principles. The consideration of the Life Insurance Corporation Bill in 1956, soon after the nationalisation of Life Insurance in India, therefore, gave the Parliament and the Country an opportunity for such a public debate.

L.I.C. as an autonomous body:

17.1.2. The objectives of the Bill and the debate in Parliament made amply clear that the Government as well as all sections of public opinion were convinced that the business of life insurance could not be carried on efficiently by a departmental undertaking, and that it was, therefore, necessary to set up an autonomous Public Corporation which would carry on the business of life insurance in India. The Act, therefore, provided for the establishment of a Corporation with a capital of Rs. 5 crores (*vide* Section 5) and vested the exclusive privileges of carrying on life insurance business in India in the Corporation (Section 30). The Act laid down that the life insurance policies of the Corporation would be guaranteed by the Central Government (Section 37), and cast on the Corporation the duty to develop the life insurance business in the Country to the best advantage of the community (Section 6). The Act and the debate that preceded, the passing of the Bill made it clear that the basic social objectives behind the nationalisation of life insurance business and, therefore, the decision to establish the Corporation were the desire to make the protection of life insurance available everywhere in our Country, to mobilize the savings of the community through life insurance, to guarantee security to policyholders and to ensure that the funds available from premiums were

judiciously invested with a view to securing the maximum yield consistent with the safety of the capital and in a manner consistent with the accepted objectives and directions of economic development.

Reconciliation of social objectives with business principles:

17.1.3. The Act also made it clear that the Corporation would be expected to seek the social objectives in a manner that was consistent with the cannons and criteria of sound, economic management, of commercial and industrial ventures. In a sense, therefore, it might be said that one of the tests of efficiency that the Parliament set for the Corporation, through the Act which brought the Corporation into being, was its ability to reconcile its social objectives with the compelling necessity to seek economic viability and success through sound business practices.

17.1.4. It must be pointed out that the term 'business principles' often evokes the picture of an undertaking that is relentlessly pursuing profit, without any consideration of social costs involved in the process. But a little reflection should convince one that the desire or effort to maximize profit need not always ignore social costs, and that even Public Undertakings which are not seeking profit for the benefit of a few private owners or entrepreneurs have to earn a commensurate yield on investments, in other words, profit, if they are to be viable economic Institutions, and not economic liability to the community. Even so, it is conceivable that the simultaneous pursuit of high social objectives without a phasing of these objectives and business principles may lead to a situation in which the management of an undertaking feels that it has come up against a dilemma. In such situations it sometimes find it hard to reconcile the two sets of objectives. In the case of the Corporation, for instance, it has been pointed out to us more than once that the social objectives of spreading insurance far and wide would require the incurring of enormous expenditure to open offices and provide service in areas from where no commensurate return can be immediately expected to balance the investment for development. If the Corporation were to work on the basis of business principles alone it might have avoided many unattractive areas and concentrated on areas and proposals that would have maximized its profits. It might then have confined its underwriting to lives which were considered sound and functioned only in areas where the volume of business kept overhead expenses at the minimum. But such choices are not open to the Corporation. The Corporation enjoys a monopoly of life insurance business. It is the only Undertaking in the field from which any citizen in this Country can secure life insurance cover. The mononolistic position that the Corporation enjoys and the fact that this monopoly was conferred on the Corporation to serve a social objective, namely, that of providing insurance cover to as many people as possible and at as low a cost as possible therefore makes it incumbent on the Corporation to be accessible to all those who seek insurance cover from it. In the same way, it is not inconceivable that the Corporation can increase the return from its investment if it were willing to take greater risks and ignore the effects that its operations and investing policy may have on the general economy as well as the economic objectives of the country but here again the fact that the Corporation is a monopoly which attracts the savings of everyone who seeks life insurance protection confers on it the responsibility to see that its investments are

safe investments, and that an indiscriminate and whimsical policy of investment does not jeopardise the savings of people or the economic equilibrium that the policies of the Government seek to maintain.

17.1.5. We have cited these instances only to show how the simultaneous pursuit of social objectives and economic efficiency (or business principles) may lead to situations that call for a high degree of managerial skill. The decision that the managemnt is called upon to take in such situations can be taken only by a mangement that is invested with the authority and powers that a fully autonomous undertaking enjoys. It is difficult to visualise a departmental undertaking devoid of initiative and tied hand and foot with the red tape of bureaucratic procedures and practices dealing with such situations that call for immediate judgments, decisions and actions.

Freedom from Government interference:

17.2.1. It is these considerations which prompted Parliament to confer full autonomy on the Life Insurance Corporation, and to free it from day control and intereference of the Government. It may be useful here to recall what the then Finance Minister said in Lok Sabha when the House was discussing the Life Insurance Bill.

> "We are all agreed that the Corporation is to be an autonomous body run on strict business lines....The Corporation's autonomy would be limited only by the directions which Government would give from time to time....Now, it is not the intention to interfere with the day to day working of the Corporation unless it is found that the Corporation is disposed to proceed along lines which are in conflict with the broad public policies approved by Government. So our approach is very much on the lines suggested by Hon'ble Members, namely, maximum delegation of powers, conferring maximum autonomy at all levels, and at the same time making arrangements for ensuring an adequate degree of co-ordination."

Government's right to issue directives:

17.2.2. We must here point out the emphasis that Hon'ble Minister placed on the autonomy that the Corporation needed as well as the answerability or accountability that a Public Undertaking has to the Parliament and the people. A Public Undertaking is set up by a decision of the Parliament or the Government. Its capital comes from the public exchequer. It has been set up in pursuance of a declared and accepted public policy, to seek the social objectives that State policies embody. It has, therefore, to be accountable to the Parliament, and the Parliament must reserve to itself the right to supervise the direction of progress, the efficiency of managemnt and the extent to which the broad policies of the Undertaking conform to the expectations and overall policies of the Government. The Parliament, therefore, empowers the Government to supervise the functioning of the Public Undertaking and to issue such directives as are necessary to ensure that the purposes for which the Undertaking was set up were being effectively served. In the case of the Corporation too the Act, therefore, has empowered the Government (Section 21) to issue directives to the Corporation in all matters that affect public

policies. It cannot be held that the Government's right to issue directives constitute the limitation to the autonomy of the Corporation as far as its day-to-day activities are concerned. The Government is expected to invoke its right and issue directives when it feels that the interests of public policy require a certain course of action which the Corporation, left to itself, may not follow because of the compulsions of sound business administration. In all such cases of incipient or apparent conflict between the requirement of sound business administration and the pursuit of social objectives the Government has the right and the duty to issue a directive to prescribe a certain course of action that overrides the limited considerations that may otherwise guide the decisions of the Corporation. Such directives are issued by the Government in writing and are therefore subject to review and criticism by Parliament. The danger to the autonomy of Public Undertakings does not lie in the right of the Government to issue such directives, but in the practice of issuing and receiving informal and oral and unrecorded instructions that blur the responsibility for a decision and make it possible for autonomy to be abridged or surrendered in the twilight Zone of informal relationship. The autonomy of Public Undertakings can be real and fruitful only when the mangemaent of Public Undertakings, the Government and the Parliament respect and scrupulously adhere to the areas that the Parliament itself has earmarked to each.

Appointment of Members, Auditors etc.:

17.2.3. The right to issue directives is not the only means that the Government has at its disposal to exercise control and supervision over the working of the Corporation. The Chairman and Members of the Corporation are appointed by the Government; the Corporation can appoint its Auditors only with the previous approval of the Government, and the remuneration of the Auditors has to be fixed with the approval of the Government (Section 25); the Corporation cannot establish any new Zonal Office without the prior approval of the Government (Section 18); at the end of every financial year the Corporation has to prepare and submit to the Government an Annual Report of its activities in a form prescribed by the Government (Rule 17 of the L.I.C. Rules and Section 27 of the Act); and the Corporation has to pay to the Government the balance of the surplus not exceeding 5 per cent emerging from the periodical Valuations of the Corporation, and the entire profit on business other than life insurance carried on by the Corporation (Section 28A).

17.2.4. It is not necessary for us here to comment in detail on the desirability and necessity of these restrictions that have been imposed on the Corporation. There can be no question that the Government should reserve to itself the right to appoint the Chairman and the Members of the Board who constitute the Corporation. There can hardly be any doubt that the Government must have the power to satisfy itself about the calibre, competence and remuneration of the Auditors of the Corporation, especially when one observes that in the case of most other Public Undertaings the ultimate responsibility for audit and report to Parliament has been vested in the Comptroller and Auditor General of India. In fact, the Corporation is one of the few Public Undertakings that have been exempted from the necessity to submit its Accounts to the control and audit of the Comptroller and Auditor General of India. The Government, therefore, has the

special responsibility to ensure that the books of the Corporation are maintained and the audit of the Corporation is carried out according to the highest standards of efficiency, necessary to satisfy Parliament. The need to submit an Actuarial Valuation and an Annual Report of the activities and achievements of the Corporation to the Government arises from the obligation that is cast on the Government to lay these reports before the Parliament. The Act of Parliament that set up the Corporation laid it down (Section 28) that the balance of the surplus emerging from the Valuation was to be transferred to the Government to be used by the Gov- Government for such purposes as might be determined by the Government. We have, therefore, no doubt that these restrictions that the Life Insurance Corporation Act has imposed on the Corporation are not only not inconsistent with the autonomy of the Corporation that essential to ensure accountability to Parliament.

Investments of controlled funa:

17.3.1. Besides these restrictions that have been specifically laid down in the Life Insurance Corporation Act, 1956, there are some other restrictions which flow from Section 43 of the Act. Under this Section, the Government has the power to specify the Sections of the Insurance Act, 1938 which will be regarded as applicable to the Corporation with or without alterations. One of these sections of the Insurance Act that the Government has made applicable to the Corporation, by Notification No. GSR 734 of 23-8-1958, is Section 27-A. This Section permits the Corporation to invest not more than 15 per cent of its controlled funds in securities other than the "approved investments" as defined in the Insurance Act, subject to the stipulation and conditions listed in that Section. We have no doubt that this restriction on the investment that the Corporation makes from the funds at its disposal is an essential safeguard that must be prescribed in the interests of the policyholders. As we have already pointed out in an earlier paragraph of this chapter, the Corporation has monopolistic access to the savings of the community that are utilised for the purchase of insurance cover. It is essential to see that these large funds that the community places at the disposal of the Corporation, in good faith and for a definite purpose, are not used by the Corporation deliberately or unwittingly to undermine the economic values that the community has accepted or to cause economic disequilibrim. The policyholders of the Corporation, when they purchase policies, have no intention of channelling their savings through the Corporation to the benefit of any section of private industry. It is, therefore, essential to ensure that access to these resources of the communiy does not give the Corporation the power to thwart the objectives and values of State policy. The recent debate on the necessity to provide for the social control of credit and Institutions of Credit, like Banks etc. and the measures that Parliament has taken to provide for a degree of control further underline the need for a similar control on the Corporation's right to invest the funds that it acquires through premiums. *We, therefore, recommend that investments of more than a specified amount (pay Rs. 50 lakhs) in a single undertaking or undertakings belonging to a single group, which falls under the category of unapproved investments" as defined in the Insurance Act, 1938 should be made only with the prior approval of the Central Government. We*

recommend that the power to impose this further restrictions on the investments of the Corporation might be assumed by the Government through an appropriate directive, or a necessary amendment of Section 27A.

17.3.2. We must also point out here that the Banking Laws (Miscellaneous Provisions) Act, 1963 enables the Reserve Bank, under the amended Section 45L of the Reserve Bank Act, to issue directives to the Life Insurance Corporation on the business that it conducts as a Financial Institution, having regard, however, "to the conditions in which and the objects for which" the L.I.C. has been established. It is true that the Reserve Bank has had no occasion to exercise this right and to issue directives to the Corporation. However, it is apparent that the purpose to this provision too is to enable the Government and the Reserve Bank of exercise control over the investments of the Corporation, and to ensure that the Corporation's investment policy is in conformity with State policies and national interests.

Regulations relating to day to day administration :

17.4. Apart from the matters of policy and investment that we have referred in the preceding paragraphs, there is yet another area in which the Corporation's autonomy has been restricted by the Life Insurance Corporation Act. Section 49 of the Life Insurance Corporation Act empowers the Corporation to frame Regulations not inconsistent with the Act. It also makes it necessary for the Corporation to secure the prior approval of the Government for these regulations. Many of these Regulations relate to matters that may legitimately be regarded as matters of day to day procedures and administration. Some of them relate to the procedures of the various Committees of the Corporation, the Travelling Expenses and Daily Allowances to members of the Zonal Advisory Board, Employees and Agents Relation Committee and Policy-holders' Council etc. (Regulations 42(vii), 43(v) and 43a(xiv)). All these are obviously matters that relate to day to day administration and functioning of Consultative or Internal Committees of the Corporation, and we see no reason why they should be subjected to the restrictions that they need the prior sanction or approval of the Government before becoming effective.

Regulations relating to methods of recruitment etc.

17.5. In the same way the prior approval of the Government is necessary for the Regulations that the Corporation formulates to regulate the methods of recruitment and the terms and conditions of the service of its employees and agents, under Section 49(2)(b) and (bb) of the L.I.C. Act. The Corporation has also to obtain the prior approval of the Government for any modifications that it may make from time to time in these Regulations. We must confess that we are not in a position to appreciate the need to impose this restriction on the Corporation. The method of recruitment and the terms and conditions of service in a Public Undertaking that transacts commercial or industrial business, need not necessarily conform to the methods and terms and conditions and practices in Government Departments. The same considerations that justify and necessitate autonomy also justify and necessitate freedom for the management to conform to methods of recruitment and terms and conditions of service in

a commercial or industrial undertaking even though it may be in the Public Sector. The evidence before our Committee has left us in no doubt that the process of securing Government approval for Regulations and amendments to Regulations often causes inordinate delays and adversely affects the administratively machinery of the Undertaking. A business Undertaking cannot afford delays in taking or implementing decisions. *We, therefore, recommend that the terms and conditions of service of the personnel of the Corporation be taken outside the purview of Section* 49(2) *(b) and (bb). However, if for any reason of Public policy when Government feels that a particular step that the Corporation proposes to take in this behalf is likely to have harmful or undesirable effects, it may exercise its powers under Section* 21 *of the L.I.C. Act and issue an appropriate directive to the Corporation.*

Internal Audit and Inspection:

17.6. Regulation 46 and 47 of the Life Insurance Corporation Regulations 1959 deal with Internal Audit and Inspection. We would hold that, in view of the requirements of accountability and the responsibility that the Government has to ensure that exemption from the jurisdiction of the Comptroller and Auditor General does not lead to laxity or reduction in the standard of efficiency of audit, these requirements are essential, and cannot be regarded as restrictive of the autonomy of the Corporation.

Informal discussions with Government:

17.7. As we have already observed in an earlier paragraph, the nature of the business of the Corporation and the powers, functions and duties of the Corporation are such that there is always a need for discussion and consultation between the top management of the Corporation and the Finance Ministry. The Minister is answerable to the Parliament for the supervision and control that the Government is expected to exercise on the Corporation. He is aware of the views that the Parliament and its Committees hold on the activities and policies of the Corporation. He has to answer questions that may be raised in Parliament either through starred or unstarred questions or interpellations on the working of the Corporation. He has to answer a debate that may take place in the Houses on the Actuarial Valuation or the Annual Reports of the Corporation. The Government appoints the Chairman and the Members of the Board of the Corporation. All these factors make it necessary for the Ministry, including the Minister, to be constantly aware of the work and thinking of the Corporation. The Minister, and the Ministry therefore, are bound to have many opportunities to discuss various matters with the top management of the Corporation. The Chairman and members of the Corporation and other officers of the top management will certainly be open to the influence of the ideas and suggestions that are conveyed to them in the course of these discussions and in the course of the attempt to keep them fully aware of the views and feelings of the Parliament and the Ministry. There is nothing wrong in such frequent discussions between the top management of an autonomous Undertaking and the Minister and senior officials of the Ministry. In fact, co-ordination of policy and smoothness and efficiency of administration require such frequent consultations and exchanges of ideas. However, there is a danger that the opportunity afforded by such informal discussions might sometimes be used to transmit informal and

unrecorded directives. Such a situation leads to the blurring of the responsibility, and makes it difficult for Parliament to distinguish between the responsibility of the Undertaking and the responsibility of the Ministry. *We are convinced that in an undertaking like the Corporation which needs autonomy for efficiency, and yet has to function in strategic areas of the economy, within the perimeter of the social objectives that the Government pursues, it is essential to ensure that the responsibility for any decision that the Corporation takes or implements is not blurred in a twilight zone of informal and unwritten exchange of ideas. We would, therefore, recommend that in all cases where the Corporation wants to claim that it has acted in pursuance of the preferences indicated by the Government, it must be armed with a formal and recorded opinion or sanction of the Government. We also recommend that whenever the Corporation has to depart from a practice or procedure prescribed by the Regulations, or make departure in respect of matters that are reserved for the prior sanction and approval of the Government, it should secure a formal and written approval from the Government.*

Parliamentary control :

17.8.1 Parliamentary control over Public Underakings is normally exercised by Parliament through questions, interpellations, discussions of the Annual Reports and Audited Accounts of an Undertaking, special discussions initiated by members etc. Apart from these discussions that take place on the floor of the House, the Estimates Committee and the Committee on Public Undertakings examine the working of Public Undertakings from time to time. Yet another instrument that Parliament uses for the control and supervision of Public Undertakings is the audit of the Comptroller and Auditor General whose reports are presented to the House and examined by the Public Accounts Committee. Though most of the Public Undertakings that have been set up in our Country are subject to the audit of the Comptroller and Auditor General, the Parliament decided that the Life Insurance Corporation should be free from the audit and control of the Comptroller and Auditor General since the nature of the business that was entrusted to the Corporation was such that audit by the Comptroller and Auditor General was likely to stifle the initiative of the Corporation. The then Finance Minister who piloted the Life Insurance Corporation Bill summarised the views of the Government, and said:

> "I have no desire to take refuge behind legal formalities...... The Government have devoted very careful attention to this subject and, let me at once make it clear, that they are ever willing, in fact anxious, to associate the Comptroller and Auditor General to the maximum extent possible or advisable, with the financial working of State Underakings. Accordingly, the Comptroller and Auditor General has been entrusted with the audit of accounts of authorities who function more or less under Government conditions—for instance, the Damodar Valley Corporation, the Industrial Finance Corporaion or the Airlines Corporation and also of Government sponsored companies with whose transactions the staff of the Comptroller and Auditor General are likely to be familiar. But, where important commercial considerations are involved, like the State Bank or the Insurance Corporation, since Government Officers lack experience of the work in such enterprises, Government would not

like the success of these recently nationalised ventures to be jeopardised by some violent change in the system. Such institutions cannot be run without the exercise of a large measure of discretion by the higher executives and any system which makes it possible for audit to raise objections to the exercise of such discretion is bound to paralyse their working........"

17.8.2. This rather lengthy excerpt that we have quoted serves to throw light on the reasons that prompted the Government and the Parliament to exempt the L.I.C. from the control of the Comptroller and Auditor General and to seek to exercise control indirectly through the power to approve the appointment of Auditors of the Corporation. The Government has not only reserved to itself the power to approve the appointment of Auditors but also prescribed the form in which the Auditors' Report and the Annual Reports have to be presented to Parliament from year to year. This provides Parliament with an opportunity to assess the performance of the Corporation.

Appointment of a Special Committee:

17.8.3. As we have already pointed out, one of the ways in which the Parliament exercises its control over Public Undertakings is through the Estimates Committee and the Committee on Public Undertakings. These Committees examine the working of the Undertakings in much greater detail than is possible on the floor of the House. However, in view of the very large number of Public Undertakings in our Country, it may not be practicable to expect the Committee on Public Undertakings to go into the working of the Life Insurance Corporation in detail and examine its performance every year. Such a close scrutiny by the Estimates Committee or Committee on Public Undertakings may take place only once in a few years since the Parliamentary Committees have to devote attention to many other important Undertakings. *We would, therefore, recommend that the Government should appoint, once in every five years, a Special Committee to review the technical, managerial and accounting system and the operational efficiency of the Life Insurance Corporation and cause these reports to be made available to Parliament.*

17.9. The Life Insurance Corporation is a Financial Institution which transacts business of a highly specialised nature. It is difficult to evaluate the performance of such an Institution without the experience and expertise necessary to understand, scrutinise, and evaluate the detailed effects and implications of many sophisticated actuarial and management decisions. The Department of the Government that has to evaluate the working of the Corporation must, therefore, have the benefit of competent expert advice on the intricate technical subjects that come up in the course of the evaluation of the performance of the Corporation. In this context it may be argued that the Central Government can look to the Controller of Insurance for advice in these matters. We would, however, like to point out that in view of the complexities and urgency of the various matters arising in connection with the Corporation's functioning under the L.I.C. Act 1956, it would be highly desirable that one of the senior officers in the Ministry, dealing with the L.I.C.'s matters, himself possesses actuarial qualifications. *We, therefore, recommend that the department that deals with insurance be placed under an Actuary who will be of the rank of a Joint Secretary.*

CHAPTER XVIII

Organisation and Reorganisation

Importance of set up :

18.1.1. One of the basic factors that determine the efficiency and success of an Organisation is its administrative and organisational set up. The economic management and the level of expenses of the Undertaking depend upon the Organisational set up that it has and the administrative system that it pursues. In the Private Sector, competition compels business Organisations to constantly scrutinize the efficiency of their organisational and administrative set up, and to streamline them to ensure expeditious decisions, flexibility, resilience, delegation of authority and the optimum utilization of talent and man-power at all levels. Undertakings that cannot stand up to this ruthless competition disappear. Institutions that function in the Public Sector are not exposed to such competition; in many cases they are monopolistic Undertakings that are fully protected from competition. They do not, therefore, have the benefit of an external pressure for constant scrutiny and refinement of the adequacy or excellence of their organisational set up. However, the monopolistic nature of the Undertaking and the absence of competition in fact impose an obligation on the Government and the management of the Undertaking to subject the set up of the Organisation to the kind of ruthless scrutiny that would have resulted from competition.

18.1.2. It might be said that this close relationship between the Organisational set up and the economic and administrative efficiency of the Undertaking has received considerable attention in the case of the Life Insurance Corporation. One of the major questions that came up before Parliament when the Life Insurance Corporation Bill was being considered, was the question of the structure of the Corporation. There was a considerable volume of opinion that questioned the advisability of giving a unitary structure to the Corporation, and argued that the nature of the business that the Corporation was expected to do, the problems of management that would arise in a gigantic single Undertaking, the need for flexibility and the desire to take insurance to the door step of the citizen demanded the establishment of four or five Corporations that work intensively in their own areas. In fact, one of the suggestions that was made, was that a number of autonomous Corporations should be set up, each working in a State or States falling within its jurisdiction. The finance Minister who piloted the Bill explained the attitude of the Government to the question, and said :

> "We feel that to start with, we should have one autonomous Corporation with Zonal Organisations and if we find that it does not work satisfactorily, then it would be open to us to change over from it to a number of autonomous Corporations. This process could be easier than the reverse process, that is to say, to proceed from several autonomous Corporations to one monopoly Corporation."

18.1.3. Though the Parliament adopted the Bill to set up a single Corporation with a unitary structure, the debate on the suitability of the unitary form did not cease. The relative advantages of maintaining the unitary set up and creating a number of autonomous Corporations have been discussed many times during the course of the last 12 years. Soon after the Corporation came into being, in 1958, when the Prime Minister presented the Report of the Chagla Commission to the Lok Sabha he said :

> "Some Members have suggested that it might have been desirable or it might be desirable in the future for this huge organisation to be split up into three or four. It is a matter which may be considered. If that is more advantageous, it should be done. We should not hesitate to do it".

Views of the various Committees of Parliament :

18.2.1. In subsequent year, the question has been discussed at considerable length by the Estimates Committee of the Parliament (1960-61), the Committee on Public Undertakings, the Krishna Menon Committee of the Congress Party in Parliament, and recently by the Administrative Reforms Commission.

Views of the Krishna Menon Committee:

18.2.2. The Krishna Menon Committee of the Congress Party in Parliament was the first Committee to refer to this question. They recommended the splitting up of the Corporation, and said :

> "The L.I.C. would in our view function more gainfully and efficiently if it were not all one unit but consisted of several which would develop their own character, create healthy competition in performance and results. Such a step would also help to effect economies, give more opportunities for more talent to become utilized in positions of higher responsibility etc."

Views of the Estimates Committee :

18.2.3. The Estimates Committee of Parliament dealt with this question when it examined the Life Insurance Corporation in 1960-61. The Chairman of the Corporation who appeared before the Committee in November, 1960, told the Committee that

> "If the new business of the Corporation in a year exceed Rs. 1,000 crores, it might become necessary to split it up into one or more separate bodies".

The Committee itself came to the following conclusion :

> "It is to some extent true that in the case of a monopolistic and monolithic enterprise like the Life Insurance Corporation, no comparative standards for measuring efficiency and performance are readily available. In the absence of such competition, perhaps defects cannot also be easily located or removed. The suggestion that the Corporation should be split up into a number

of independent Corporations, all operating throughout the country has, however, certain obvious drawback. Such an arrangement would entail the setting up of parallel organisations at all levels entailing considerable avoidable expenditure.

The second suggestion, which contemplates a federal structure with semi-autonomous zonal units, has a number of desirable features. It will not entail duplication of organisation. On the other hand, the grant of more autonomy in the writing of business, payment of claims, grant of loans, servicing etc., will encourage initiative and can be expected to result in increased efficiency. Such delegation of functions is also likely to require a smaller Central Organisation which need be concerned only with policy matters, overall supervision, co-ordination, rates of premia, higher recruitment, postings and transfers, training, inspection, etc. An element of completition between the different semi-autonomous Zonal Units could thus be introduced. The figures of new busienss, management expenses, overall and renewal expense ratios, profit and loss, etc. could be worked out for each Zone and published separately in the Annual Reports of these Units to enable their efficiency to be judged. The Committee recommend that the matter may be examined in the light of the observations made above."

Views of the Committee on Public Undertakings:

18.2.4. The Committee on Public Undertakings examined the Life Insurance Corporation in 1964-65. It devoted considerable attention to the unitary set up of the Corporation and the need for reorganisation, and made the following recommendations :—

"196. The Committee have considered this matter carefully. They are convinced that the tardy growth of business and deterioration of service to the policy-holders which have been brought out in Chapters IV and VIII are ascribable to the present size and centralised organisation of the Corporation.

197. The Committee feel that if the standard of efficiency in the Corporation is to be improved, with better service to the policyholders, and the Corporation is to expand its business on a massive scale, its present zones must be constituted into completely independent Corporations.

198. Such a major reorganisation would involve the amendment of the statute and may take some time. They, therefore, suggest that in the meanwhile the present zones should be made fully autonomous not merely by delegating more powers to the Zonal Managers but by settings up separate Boards of Management and making each Zonal Manager the Chief Executive Officer of his Zone. The Committee hope that by this process overall business will expand, rural business would significantly increase and the service to the policyholders would also improve.

199. So far as investments are concerned, during the transitional period, the Central Board of the Corporation should look after this work, but even after formation of five independent Corporations it would be necessary in the national interest that the

investments are equitably distributed throughout the country. A practical approach to this would be that a major portion of the investment of any Zonal Corporation should be earmarked for the zone itself. The balance should be left at the disposal of a central authority, to be created for the purpose for meeting also the needs of the backward areas of the country.

200. The details of the reorganisation suggested in para 197 above will have to be worked out by an expert committee. The Committee, therefore, suggest that an expert committee may soon be appointed for the purpose".

Views of the Administrative Reforms Commission:

18.2.5. The Administrative Reforms Commission too has dealt with this question in the Report that they submitted to the Government in 1968. The Commission came to the conclusion that the present unitary set up should be continued, and made the following recommendation to the Government:

> "There should be only a single Corporation as at present. It should achieve economy and efficiency by implementing our recommendations for reorganisation. It should also simultaneously introduce competitive spirit among the branches and Divisions in efficient service to policyholders and reduction in expense ratio."

18.2.6. Thus, in the course of the last 12 years, four committees—two of the Parliament, one of the Congress Party and one of the Government—have examined the advisability of retaining or revising the unitary set up of the Corporation. The excerpts that we have quoted from their recommendations show considerable difference of opinion in the conclusions that were reached. The Krishna Menon Committee and the Committee on Public Undertakings have recommended that the Corporation should be split up, the Administrative Reforms Commission has recommended the retention of the present unitary structure, the Estimates Committee has recommended the federal structure with semi-autonomous Zonal Units. The fact that the four committees that examined this question at a very high level came to different conclusions is a striking evidence of the complexity of the question and the need for a careful and dispassionate consideration of all the merits, demerits and implications of the different proposals that have been put forward. It is clear that any step that is recommended should be one that is capable of removing the shortcomings that exist today without creating new shortcomings or defects which may be even more serious than what the Corporation suffers from today. Any step that is recommended must give reasonable hope of a tangible improvement in administration and economic efficiency and in the efficiency of the service that the Corporation renders to its policyholders.

Points to be considered :

18.3. We believe that an objective and dispassionate study of the shortcomings of the present organisational set up should consider the following questions :—

(1) How far have the objectives of the Corporation been achieved by the present unitary set up?

(2) How far has the absence of healthy competition in the unitary set up concealed the real defects and deficiency of the Corporation ?

(3) How far has the size of the Corporation been responsible for inadequate growth of business or deterioration in service to policyholders ?

(4) How far has centralisation of authority been responsible for inadequate growth of business and deterioration in service ?

(5) Can it be said that higher managerial talent cannot find adequate opportunities in a unitary set up ?

The Unitary set up and the objectives of the Corporation:

18.4.1. Section 6 of the Life Insurance Corporation Act, 1956, requires the Corporation to "so exercise its powers as to secure that the Life Insurance business is developed to the best advantage of the community". This objective of the Corporation can be realised only if the Corporation (1) takes insurance to the door step of the citizen, particularly in the rural areas, (2) renders satisfactory service to policy-holders, (3) manages the business of the Corporation with economic efficiency, and (4) invests the funds that accrue from premia in a manner that is consistent with maximum security, maximum return and maximum benefit to the community.

18.4.2. We shall now proceed to examine how far the unitary set up of the Corporation has helped or hindered the pursuit of these objectives.

Spreading Insurance:

18.4.2. If the Corporation is to spread insurance to every area in the Country, it has to map out and survey each area, estimate the insurance potential in the area, place agents and field staff in the area and formulate policy schemes that cater to the requirements of various sections of the population in these areas. These are tasks that can be handled—and handled equally well—by a unitary Corporation or a number of autonomous Corporations. The success or failure of the Corporation or Corporations in spreading insurance will depend on the calibre of the personnel and the relevance of the policies offered, rather than on the organisational set up of the Corporation. It may be argued that if the Corporation is split up into several Corporations, the headquarters of each Corporation will be within, or nearer to, the area of operation and this nearness may promote greater attention to the special needs of the area and therefore more efficient development. We find it very difficult to agree that the proximity would have such as influence over the efficiency. If this criterion is to be adopted, it may be difficult to determine the size of the area that can be covered from each headquarters. It appears to us that it is not the proximity of the headquarters that determines the efficiency of development, but the calibre of the personnel and the extent of delegated authority or autonomy that they enjoy.

18.4.4. It may be argued that the delegation of authority to lower tiers does not constitute a solution since it is only authority that can be delegated and not responsibility, as long as the administrative set up continues

to be unitary. We would like to point out that the splitting up of the Corporation would not alter the situation. Even in these Corporations, authority might be delegated to lower tiers like the Divisional or Branch Offices, but the responsibility for spreading insurance will vest in the Corporation itself. It appears to us, therefore, that there is no strength in the argument that the unitary form of Organisation is incapable of spreading insurance to the different areas of our country.

Number of Offices:

18.4.5. It may be useful here to review what the Corporation has already done, in the last 12 years to spread insurance to the different parts of our country. On the 31st December, 1957, the Corporation had, besides the Central Office and five Zonal Offices, 33 Divisional Offices, 195 Branch Offices and 45 Sub-Offices. Today, or more precisely, as on the 31st of March, 1968, the Corporation has 36 Divisional Offices, 414 Branch Offices, 135 Sub-Offices and 152 Development Centres. A map of India showing the location of these various Offices and a Statement showing the growth of Offices in the last 12 years are appended to this Report (Appendices 55 and 56). In the Annual Report for the year ending 31st March, 1968, the Corporation has said that "it has either a Branch or a Sub-Office in 256 out of the 324 districts of the various States, and in 7 out of 10 Union territories in India. It also has Development Centres in 25 of the remaining districts". There is no doubt that the increase in the number of Offices and the extensive net work that the Corporation has built up show that the Corporation has been conscious of the need to reach as many areas as possible and to make its services available to policyholders and prospective policyholders as near their places of residence or work as possible.

New Business:

18.4.6. The Corporation's record has been equally impressive in the field of new business. During the first accounting period of the Corporation which covered a period of 16 months from 1st September, 1956 to 31st December, 1957, the Corporation transacted, in India, a new business amounting to Rs. 333 crores under about 9 lakhs of policies (the corresponding figures for the calendar year 1957 were a new business of Rs. 278 crores under about 8 lakhs of policies). As against these, the Corporation's new business in India during 1967-68 amounted to Rs. 835 crores under about 14 lakhs of policies. In other words, the new business in terms of sum assured has, during the course of about 12 years, trebled. In terms of the number of policies it has increased by 75 per cent. Of the new business done during 1967-68 business amounting to Rs. 235 crores (28:2 per cent of the total) came from the rural areas under about five lakhs of policies (forming 35:8 per cent of the total). As for the business in force in India ie increased from Rs. 1,374 cores under 54;17 lakhs of policies as on 31st December 1957 to Rs. 5,116 crores under 126.43 lakhs of policies as on 31-3-1968. In other words, the Indian business in force has during the period of 12 vervs, increased by 270 per cent in terms of sum assured, and by 130 per cent is terms of the number of policies. Appendices 56, 57 and 58 indicate the degree of success that the Corporation has achieved in developing new business and spreading insuranse to rural areas.

18.4.7. This record of progress is by no means insignificant or meagre, and it is only a matter of conjecture whether the Corporation could have achieved more if it had not functioned through the unitary set up but a number of autonomous Undertakings.

Service to Policy-holders:

18.4.8. At present, most of the services that are being rendered to policy-holders are being rendered by the Divisional Offices of the Corporation. In some of the Zones, some Branch Offices too have been entrusted with the responsibility for rendering some of the services that other Divisional Offices normally attend to. We have no doubt in our mind that the policyholder will be satisfied only when the service that he requires is promptly available as near as possible to his place of residence or work. We would, therefore, consider it essential that all the Branch Offices and Sub-Offices of the Corporation themselves render the essential services that the policyholders seek, such as collection of renewal premiums and issuing of official receipts, admission of age, registration of assignments and nominations, grant of loans or surrender values, revival of lapsed policies, alterations in plans or terms of insurance and the settlement of claims, whether by death or maturity. We do, however, realise that though the ideal arrangement would be to entrust all these functions to the Branch Sub-Offices, it might not be feasible, under the present circumstances, to expect every Branch and Sub-Office to be able to deal with all these functions. We were told by the Corporation that one of the difficulties in the way of entrusting these functions to the Branch and Sub-Offices was the paucity of adequately trained personnel who could handle these jobs. We, therefore, realise that it will not be possible to transfer all these functions to the Branch and Sub-Offices immediately, but we do believe that a gradual and phased programme should be drawn up for transferring as much of these functions as possible to the lower tiers, and at the same time training personnel who will be competent to deal with these functions at the lower organisation levels.

14.4.9. We have already pointed out that Branches and Sub-Offices can service policyholders satisfactorily only if the necessary powers are delegated to them. But even with the delegation or decentralization of these powers, the Branch and Sub-Offices will still be answerable to the Divisional Offices, whether the unitary set up of the Corporation remains or the Corporation is split up into independent Corporations. It is therefore difficult to hold that the Corporation cannot render effective service to the policyholders as long as the present unitary form is maintained.

18.4.10 Since we often hear that the Corporation is not rendering satisfactory service to policyholders, we tried to enquire about the number and nature of the complaints received at the Central Office of the Corporation. It is more than likely that all persons who are dissatisfied do not put down their complaints in writing, and the number of complaints with the Corporation cannot, therefore, be considered exhaustive. Yet when we see that the total number of complaints that the Central Office of the Corporation received during the year 1967-68 was only 18,340 as against the total number of policies in force of about 1·26 crores, we are inclined to take the view that, even if the actual number of complaints had been somewhat larger than the number received by the Corporation, the position cannot be described as very unsatisfactory.

Efficient and Economic Management :

18.4.11. If the Corporation is to split up into a number of autonomous Corporations, there will be no uniformity in the level of expenses in these Corporations. This can easily be seen from a study of the present level of expenses in the various Zones of the Corporation. For purposes of ready reference we shall reproduce below the four types of ratios in vogue in the Corporation for the years 1966-67 and 1967-68 :—

YEAR 1966-67

(Amounts in thousands of Rupees)

	Northern Zone	Southern Zone	Eastern Zone	Western Zone	Central Zone	Total for the Corporation as a whole
Completed New Business .	97,51,00	210,88,00	156,06,00	196,50,00	96,91,00	770,27,00
Overall Expense Ratio . . .	28·76	26·59	29·24	22·37	31·17	27·72
Renewal Expense Ratio . .	16·15	12·96	18·28	11·42	17·38	15·91
New Business Cost Ratio . .	75·58	67·97	76·76	62·27	78·78	72·13
Renewal Cost Ratio	18·97	17·58	20·91	16·10	19·82	19·36

YEAR 1967-68

(Amounts in thousands of Rupees)

	Northern Zone	Southern Zone	Eastern Zone	Western Zone	Central Zone	Total for the Corporation as a whole
Completed New Business .	113,42,91	216,94,66	166,37,78	224,00,51	114,48,71	844,51,18
Overall Expense Ratio . . .	28·72	26·51	29·57	22·47	30·84	27·52
Renewal Expense Ratio . .	16·01	13·92	19·35	11·43	16·33	15·90
New Business Cost Ratio . .	74·62	68·39	77·71	60·25	77·06	71·20
Renewal Cost Ratio	18·97	18·11	21·50	16·41	19·50	19·46

18.4.12. These figures show how the favourable experience of the Southern and Western Zones have gone to offset the unfavourable experience in the other Zones, and to improve the average for the Corporation as a whole. If the present Zones of the Corporation are converted into autonomous Corporations and are required to furnish separate accounts and valuations to the statutory authorities, the first consequence would be that the inherent differences in the expense experiences would come to surface. It may be argued that the very knowledge of such a consequence would make the Corporations cost-conscious and set their houses in order. We find it very difficult to hope that such a denouement will unfold itself in the foreseeable future. Some of the indices that we have cited in the preceding paragraph are liable to fluctuate with the quantum of new business procured as well as the lapse experience reflected in the renewal premium income. The course these factors might take under the split-up set-up is a matter for conjecture. The type of business, Urban or Rural, as well as the quality of administration count in determining the level of expenses. For instance, it can be pointed out that the procuration and administration of rural business cost the Corporation more than urban business and yet the Southern Zone which is having a proportionately larger share of rural business than, say, the Northern Zone is showing a lower renewal expense ratio than the Northern Zone. We have already referred to the defects of the renewal expense ratio, but we are referring to it here since it is the only yardstick that has so far been used for purposes of comparison. In respect of both the years referred to in the table, the New Business procured in the Southern Zone is twice that in the Northern Zone. This coupled with the margin available in the actual First Year cost as compared to the statutory 90 per cent allowance towards First Year expenses has contributed to bring about a lower renewal expense ratio in the Southern Zone as compared to the Northern Zone. It may therefore, be desirable to turn our attention to the renewal cost ratios. The papers given to us show that the lapse experience of the Northern Zone compares unfavourably with that of the Southern Zone. This feature affects the growth of the Renewal premium income which in turn affects the renewal cost ratios of the respective Zones. What we would like to emphasise here is that the indices indicated the state of affairs only in a general manner, and that before drawing any specific conclusions, one has to go into all aspects of the problem.

18.4.13. Another argument that one hears is that the "economies of scale" that one can expect in an institution of the present magnitude have not been evident in the Life Insurance Corporation, and this state of affairs is due to the unitary form of the Corporation. Our examination of the expense experience of the Corporation and the factors contributing to it have given us the impression that the above argument is not tenable. It appears to us that the Corporation failed to realize the economies of scale because it made no conscious effort to utilise the resources available to it in the most economical manner. We have no doubt that if a conscious effort had been made, economies of scale would have resulted. As an illustration, we would like to cite the fact that the Corporation has not so far fixed any work-norms for its clerical staff. We have also been told that if work-norms are laid down, it will be found that there is a surplus of about 30 per cent in the clerical staff. This surplus would, in turn, mean the existence of a similar surplus in the supervisory cadres too. We

find it very difficult to believe that the failure to fix work-norms is a result of the unitary structure of the Corporation and that work-norms can be fixed and surpluses absorbed only when the Corporation is split up. To our mind, the present situation only reflects the failure of the leadership of the Corporation to take such basic and essential steps that any business organisation would have taken. We learn that the Corporation is now taking steps in this direction, and we would, therefore, think that a fair trial should be given to these measures.

18.4.14. We must here refer to the fact that many of the policies of the 243 different units of the erstwhile insurers have not yet been decentralized. The task must have been a heavy one, involving considerable expenditure. Despite the passage of a period of about twelve years, the Corporation has not been able to decentralise these policies, apparently because of the complications and peculiarities of the systems and procedures adopted by these insurers. In the light of this situation, one wonders whether it would be practicable and desirable to decentralise these policies, if the Corporation is split up into a number of independent Corporations, without bringing in an unsettled state of affairs which might lead to complaints of delays etc., and increased expenses for the Corporation.

Canalising funds to help finance the plans for the development of the country:

18.4.15. On 1st September, 1956, the Life Insurance fund of the Corporation stood at Rs. 370 crores; it has risen to Rs. 1,260 crores as on 31st March, 1968. Similarly the total assets of the Corporation which stood at Rs. 460 crores on 31st December, 1957 have gone up to Rs. 1,400 crores as on 31st March, 1968. The Corporation has also been adding to its life insurance funds every year, the addition during 1967-68 being about Rs. 136 crores. The magnitude of these figures indicates the important role that the Corporation has been playing in the mobilisation of savings.

18.4.16. There can be no doubt that if the Corporation is split-up, the total funds of each of the split-up Corporations as well as the net annual additions to the funds would be much smaller. During his evidence before the Committee, the Chairman of the Corporation explained in detail how the unitary form of the Corporation was enabling the Corporation to assist the under-developed areas in the country. He pointed out the examples of Orissa and Rajasthan and said that the actual investment that was being made in these States was 397 per cent and 109 per cent (respectively) of the funds emanating from the business in these States. He explained that it had been possible for the Corporation to do this because of the fact that it could draw upon and divert investible funds accruing from States like Maharashtra and Gujarat to less developed areas like Orissa and Rajasthan. Such step would not be possible if the Corporation was split up. On the other hand, if the Corporation is split up, the investments of the split up units are likely to be prone to political pressures, and this might result in retarding the progress of the less developed areas.

18.4.17. If, however, the idea is that each of the split up Corporations will not make individual investments but will administer investments through a joint central agency, the various Corporations, though independent, will in other respects be functioning like the present Zones. Such

a situation would not, in our view, be far different from the position that would result if present Zones were entrusted with all the requisite powers for conducting their operations.

18.4.18. To sum up, it appears to us that no clear case has been made out to prove that the objectives of the Corporation can be realized only if the unitary form is given up, and the Corporation is split up into several Corporations. In fact, the unitary form has worked fairly satisfactorily in many respects, and splitting up the Corporation is hardly likely to improve managerial efficiency or improve the results of investment.

Healthy competition absence of competition under the present set up:

18.5.1. Another argument that has been advanced in favour of splitting up the Corporation is the absence of competition in a unitary set up. The Krishna Menon Committee observed that if the Corporation was split up into several units, they would develop their own character and give rise to healthy competition in performance and results. The Estimates Committee too have stated that in the case of a monolithic enterprise like the Corporation, no comparative standards for measuring efficiency and performance are readily available, and in the absence of such competition, defects cannot be easily located or removed.

18.5.2. It can readily be appreciated that the competition that can prevail among nationalised units will be very different from the competition that existed among the various insurance companies in the pre-nationalisation days. In the pre-nationalisation days, each Company had a different proprietor. In the nationalized set up, all the Corporations will have the same proprietor, *viz.*, the Central Government. Even so, if the Corporation is to be split up, competition, as pointed out by the Krishna Menon Committee, should be healthy. This would mean the elimination of undesirable practices like rebating, twisting of policies, offering of different rates of commission to agents etc. introduced by the unhealthy competition among the agents of the erstwhile insurance companies. This would in turn imply that the various Corporations should charge identical rates of premia, offer identical privileges and policy conditions and declare identical rates of bonuses. If all these are to be common for the different Corporations, it is difficult to visualize a large area of competition for the Corporations. Corporations will be able to offer the same rates of premia, declare identical rates of bonus and meet the obligations under their contracts, in full, in view of the guarantee offered by the Government and thus attract policyholders in the normal way, even if some of them found that their experience in mortality, interest and expenses was adverse. If competition is to be meaningful it should result in variations in the experience being reflected in variations in benefits and conditions offered. This would be possible only if the Corporations are allowed to pursue their own investment policies and it has already been pointed out earlier that this may lead to undesirable consequences.

18.5.3. We should now examine whether it would be practicable to charge different rates of premia, declare different rates of bonus and introduce different policy conditions and benefits in the various Corporations

18.5.4. One cannot answer this question without being clear whether the Corporation is to be divided into

(a) a number of autonomous or semi-autonomous Corporations, with defined exclusive jurisdictions, or

(b) a number of autonomous Corporations, each operating all over the country.

18.5.5. We have already seen that if the Corporation is to be divided into autonomous Corporations with exclusive jurisdictions and investments are to be handled by a Central Agency, the position would not be far different from what obtains to-day. In that event, the extent of competition that now exists would continue. If, however, the Corporation is to be divided into autonomous and competing Corporations that operate throughout the country, competition may lead to certain results that no one would want. Even under the present set up, the experience of each Zone varies from that of the others in respect of expenses, lapses etc. It is, therefore, clear that if each Zonal Corporation has to stand on its own feet, it has to charge different rates of premia. In this event, the Corporation charging the lowest rates of premium, declaring the largest bonuses and offering efficient service to its policyholders will attract a larger clientele, not only from its own area, but also from the area under the jurisdiction of the other Corporations. This in turn would lead to the survival of the fittest, the less efficient Corporations stagnating, if not going out of existence. Such a situation is obviously not in the best interests of the policyholders or the country. The question that remains is that of economy. We are inclined to agree with the Estimates Committee that the division of the Corporation into several competing units without exclusive jurisdictions will lead to the setting up of parallel organisations at all levels and at all main centres, entailing considerable avaidable expenditure.

18.5.6. To meet these difficulties one might be inclined to take the view that the Corporations might operate on the basis of common premium rates, policy conditions and bonus rates and have exclusive jurisdiction so that they do not normally compete for the same business. It should, however, be borne in mind that if the separate Corporations are to have separate accounts and separate valuations, there may be demands for separate rates of bonuses for policies issued by the different Corporations, on the basis of the results revealed by the valuations, and it may be very difficult to resist these demands. Similarly, even if it is not proposed to have separate valuations but only separate accounts which are published for the information of the policyholders of the different Corporations and the general public, the publication of these accounts may lead to regional pressures for the declaration of higher rates of bonuses in Corporations with the lowest expense experience. Moreover, if any Corporation has a markedly low expense experience, the employees of the Corporation may demand an increase in emoluments, and increase in emoluments may, in turn, adversely affect the expense ratio.

18.5.7. The annual reports of the Corporations contain business figures relating to the various Zones and Divisions, and these have brought, in their train, a spirit of competition among the various units. Information about the complaints received in the Central Office of the Corporation

which is being published zonewise has also fostered an element of competition among the Zones for better performance. In the same way other aspects of the performance of each Division and Zone can be published and highlighted to encourage competition and evolve comparative standards of preformance for measuring efficiency. All these can be achieved even under the unitary set up.

18.5.8. These considerations lead us to conclude that competition among nationalised institutions will necessarily be restricted competition, and the advantages of such a restricted competition can be availed of even in a unitary set up if the Divisions are invested with more powers, and encouraged to compete in performance.

Present size and Centralised Organisation are responsible for tardy growth of business and deterioration of service to policy holders:

The present size of the Corporation:

18.6.1. As has been pointed out by the Committee on Public Undertakings, it is often said that the Life Insurance Corporation has become a "huge organisation", and the tardy growth of business and the deterioration of services to policyholders are attributable to the unmanageable size of the Corporation. While it is true that the size of the Corporation has grown as compared to its size in 1956, it is difficult to say that it has become unmanageable. We find that in foreign countries there are insurance companies like the Metropolitan Life Insurance Company and the Prudential Insurance Company of America, the two largest Companies in the world, whose business in force at the end of 1965 was $ 13,000 crores and $ 12,168 crores respectively, i.e., several times larger than that of the Life Insurance Corporation. The size of these Companies does not seem to have affected their efficiency in any way. Some members of the Actuarial Society of India who had visited the U.S.A. to study the problems that arise with large-scale operations told us that, with the introduction of computers, size had ceased to be a problem for insurance companies in foreign countries. If the conditions that prevail in foreign countries become operative in our country too, the question of the size of the Corporation will lose much of its significance.

Centralised Organisation:

18.6.2. A criticism that is often levelled against the Life Insurance Corporation, is that its present set up consists of a highly "centralised organisation" and this is responsible for most of the shortcomings and defects in the working of the Corporation. The Committee on Public Undertakings has agreed with this criticism. We ourselves have examined the subject in some detail, and we are convinced that the "over-centralisation" that exists to-day is one of the major defects of the present set up. There are several spheres in which the Central Office can decentralise its powers to the subordinate offices. We have only been told of some steps that have been taken to decentralize financial powers. But administrative efficiency can increase only when real administrative powers as distinct from financial powers are also decentralized to the Divisional and lower levels. For instance, even though the Life Insurance Corporation Act 1956 envisages the delegation of powers to the Zonal Managers, no such

powers seem to have been delegated to them. As early as 1960-61, the Corporation informed the Estimates Committee that the question of delegating the largest possible powers to the various offices of the Corporation was under its consideration. Similar replies have been given to the Committee on Public Undertakings too. Yet, no clear steps seem to have been taken in this direction. All policy decisions, and the executive instructions for implementing them, flow from the Central Office to the Zonal Managers, and the Zonal Managers in turn, duplicate many of these functions and help in the concentration of some degree of power at the Zonal Offices as well, leaving the Divisional Offices largely dependent on the Zonal Offices. It is often claimed that the Divisional Offices of the Corporation are the real servicing and accounting units of the Corporation and are analogous to the head offices of the erstwhile insurance companies. Yet, we have found that these offices do not enjoy any privileges or autonomy that can even distantly be compared with the administrative powers that the head offices of the erstwhile insurers had. It is needless to emphasise here that if these Divisional Offices had been invested with the requisite powers, they would have functioned more efficiently and rendered satisfactory service to their policyholders. This, in turn, would have led to more new business being procured. It appears to us, therefore, that the solution to the problem lies in divesting the Central Office of all the financial and administrative powers that should, in fact, have been vested in the subordinate offices, thus making the Central Office a purely policymaking and co-ordinating body, and the subordinate offices more autonomous in the real sense. We shall deal with this question again in subsequent paragraphs and indicate the steps that should be taken to achieve this decentralization of administrative powers.

18.6.3. If it is believed that "centralisation of powers" at the Central Office of the Corporation has been the root-cause of the present maladies, the remedy lies in decentralization, and not multiplying the number of Corporations, and this decentralization can be achieved even in the unitary set up.

More opportunities for talent in a split-up Corporation

18.7.1. At present the Corporation is able to transfer its officers from one Zone to another, or even within the Zones. This enables every area to benefit from the talent and experience at the disposal of the Corporation. We have observed that there is a tendency among officers to prefer some Zones like the Western Zone, and try to keep away from some other Zones. As an example we could cite the cases of the Kanpur and Gauhati Divisions which seem to have had, during the past 12 years, as many as 7 Divisional Managers (who have held charge of the Divisions). A somewhat similar situation has obtained in the Agra, Indore, Jalpaiguri, and Asansol Divisions. However, today the Corporation is in a position to tarsnfer officers from one Zone to another, because of its unitary form. But if the Corporation is split up, each of the split-up Corporations will have to carry on with the officers allotted to them. It may not be easy to make such an allotment. It may be necessary to allow the existing officers to choose the Corporations that they would prefer to serve, and if such an option is given, areas like the Central and Eastern Zones, which seem to be the areas that are not very "attractive" at present, may not attract a sufficient number of capable officers On the other hand, if it is decided that officers need not be given the

option to choose, it cannot be said with any degree of certainty that the officers who are arbitrarily allotted to areas that they do not like will continue to work with the Corporation, and even if they continue, succeed in serving with enthusiasm. These are no doubt matters of administrative detail, but they are matters that vitally effect the efficiency of the Corporation.

18.7.2. We may mention here that in the course of our work we had opportunities to meet and discuss the problems of the Corporation with all the Divisional Managers and the Zonal Managers of the Corporation. While some of these officers were highly efficient and showed an awareness of the problems of the Corporation, there were quite a few others who did not come up to our expectations. The position at the lower levels, *i.e.*, below the level of the Divisional Managers, does not seem to be satisfactory either. During the discussions that we had with one of the Managing Directors, we enquired whether the Branch Offices and Sub-Offices could be entrusted with at least some of the essential Policy-holders' servicing functions. We were told that the Branch Managers and Assistant Branch Managers (Development) in charge of the various offices, were persons drawn from the development side, and, therefore, incapable of handling the administrative work relating to policy-holders' servicing. That the Branch and Sub-Offices, whether under a unitary set-up or a split-up set-up, should themselves render the necessary services to the policyholder is a matter which needs no emphasis. It seems, therefore, clear that this objective cannot be fulfilled unless the Corporation unearths persons with the requisite talent and inducts them into these jobs.

18.7.3. When the dearth of talent, particularly at the levels of the Divisional and Branch Managers, is so pronounced even in the unitary set up, it is not easy to hold that the larger number of persons necessary to deal with the increased powers and functions at the Divisional and Branch levels can be unearthed merely by splitting up the Corporation. We feel that the fresh organisational effort required for setting up five or more independent Corporations would be considerable and beyond the capacity of the present resources of personnel available to the Corporation. We, therefore, feel that the main effort of the Corporation in this direction should be to build up cadres with the necessary competence.

Practical difficulties in splitting up:

18.8.1. If it is decided to split up the Life Insurance Corporation into a number of independent Corporations, a number of practical difficulties will have to be faced and resolved. The assets and liabilities of the Corporation will also have to be divided among the Corporations. This is a delicate problem that bristles with many difficulties.

18.8.2. Taking the policy liabilities first, one has to decide how the policies are to be allotted to the various Corporations. Out of the 1.26 crores of policies in force in India as on 31.3.1968, the number of policies falling under the jurisdiction of the various Zones is as under:—

Western Zone . . .	37 lakhs.
Southern Zone . . .	35 lakhs.
Eastern Zone . . .	28 lakhs.
Northern Zone . . .	13 lakhs.
Central Zone . . .	13 lakhs.

If the proposal is to convert each of the present Zones into an independent Corporation and allot to it the policies currently under its jurisdiction, the new Corporations that emerge will be very dissimilar in size,—in the number of policies allotted to them as well as the extent of the area they are expected to cover.

18.8.3. Moreover, one cannot be sure that Corporation can unilaterally allot a policyholder to a particular Zone. Such a difficulty may arise in the case of agents as well. 'It may be difficult for the Corporation to allot an agent to a particular Corporation purely on the basis of the area in which he resides. If on the other hand the wishes of the agents are to be taken into consideration, the question of Agents who reside outside the jurisdictional areas of the Corporation may arise.

18.8.4. If the different Corporations are to be given exclusive jurisdictions, the question will also arise whether a person residing within the jurisdiction of a particular Corporation can be denied the right to insure himself within the Corporation of his choice and compelled to insure himself with only the Corporation in his area. Obviously, policyholders might have to be given the option to choose the Corporation to which they would like their policies to be allotted. If present policyholders are allowed the option, they might tend to crowd to the Corporation that they consider most efficient, leaving others to struggle for their very existence. Will this facilitate spreading insurance to the best advantage of the community or reduce the proportion of overhead expenses? The answer is obviously in the negative.

18.8.5. As we have already mentioned in this chapter, the Life Insurance Corporation has not yet been able to decentralise the existing policies of some of the leading erstwhile insurers of the prenationalisation days, because of the administrative complications that have been encountered. A decision to split up the Corporation into a number of independent Corporations would reopen and complicate this question, and any solution that may be adopted may increase the expenses on these policies.

18.8.6. Turning to the assets of the Corporation, one might be tempted to say that the assets go with the liabilities. But one has to remember that current assets of the Corporation amounting to about Rs. 1400 crores inculde surplus funds, (which in technical parlance has acquired the name "Estate") over and above the liabilities of the Corporation. These surplus funds have not been built up by the present generation of policyholders alone. Life assurance business is a continuing business, and the funds accruing from it are built up and added to by the various generations of policyholders. Insurance is about a century old in India. It is clear that the surplus funds built up by the past have served the present generation. But the present generation cannot claim the totality of the surplus funds without bringing in questions of equity. What proportion of the existing surplus funds have been built up by the past generation of policyholders and what share of these surplus funds should be earmarked for a particular Corporation are difficult to ascertain with any precision. Similarly what share, out of the present funds of the Corporation, has been contributed by the present generation of policyholders is also difficult to determine. Nor is it possible to ignore the fact that the Corporation's present generation of

policyholders do not form one homogenous group. It consists of policyholders of the erstwhile insurers, with varying degrees of fortunes, as reflected in the indicies of the differential bonuses published in the Life Insurance Corporation of India (Classification of Policies for Differential Bonuses) Regulation, 1961. Under these conditions, it might be very difficult to partition the present assets of the Corporation among the various Corporations without raising complicated questions of equity, that might raise a good deal of controversy.

18.8.7. It may be argued that even if the liabilities of the Corporation are divided, the assets need not be divided among the new Corporations but may be administered through a Central Agency. This may save the Corporation from some difficulties of the kind referred to in the preceding paragraph, but if assets are to be administered centrally and only liabilities are to be divided among the new Corporations, the new set up may not be very different from the present set up.

To Sum up:

18.9.1. We are fully aware of the point of view from which our Committee is called upon to examine the question of the re-organisation of the present structure of the Corporation. The primary task of our Committee, as outlined by the Government's resolution, is to study the reasons for the high level of expenses and recommend practical measures for bringing down the expenses to a level that is consistent with interests of the policyholders. We have, therefore, attempted to examine the question of re-organisation from this angle. We must say that our study of the pattern of expenditure in the Corporation has not led us to the conclusion that the present level of expenses is the result of the unitary structure of the Corporation. Nor are we in a position to assert, either from the evidence before us, or from our estimate of possible changes in the pattern of expenditure in a different set up, that the division of the Corporation into five or more autonomous or independent Units will necessarily result in a reduction in the level of expenses. On the contrary, we fear that it will increase the expenses particularly if the split-up Corporations are allowed to operate throughout the country.

18.9.2. We are aware that in formulating our views on any proposals for reorganisation, we have to submit the proposals to two basic tests:—(1) Is the proposal likely to lead to greater economy in the expenses of the Corporation?, and (2) Is the proposal likely to improve the administrative and economic efficiency of the Corporation and improve the services that it renders to its policyholders? From the evidence before us and from our own study of the question, we find it very difficult to say that considerable economy in the level of expenses cannot be achieved, and administrative efficiency cannot be considerably improved in the present unitary set up of the Corporation. Nor are we convinced that the objective of increase in economy and efficiency can be automatically realised, or even more easily realized, by dividing the Corporation into five or more Units. In other words, we believe that the present shortcomings in the working of the Corporation are not inherent in the unitary structure. We believe that these defects can be remedied even while preserving the unitary structure. Our examination of the problems and consequences of dividing the Corporation has convinced us that it would be preferable to maintain the unitary

structure of the Corporation and a simultaneous effort can be made to remove the shortcomings from which the Corporation suffers to-day. We are not convinced that the only way to remove these defects is to divide the Corporation. In fact, we fear that dividing the Corporation into five or more autonomous and parallel bodies may, result in increase in expenses and give rise to other serious difficulties that may affect the objectives of nationalisation.

18.9.3. We understand that two of the major reasons that have prompted the suggestion that the Corporation should be divided into five or more autonomous Units are the feeling that the Corporation has acquired an unmanageable size and the fear that it is difficult to find sufficient managerial talent to cope with the requirements of such a gigantic Undertaking. We have already pointed out in earlier paragraphs that the need for a managerial cadre of high calibre is real, and will continue to remain whether the Corporation is a unitary Undertaking or not. In fact, this is one of the difficulties that is being experienced by most of the Public Sector Undertakings in our country. We are not convinced that the answer to this difficulty lies in diminution of the size of an Undertaking and multiplying the number of posts that require people of high managerial calibre. The solution lies in un-earthing, training and giving full opportunity to the managerial talent that we require.

18.9.4. Though we have no doubt that the concept of an optimum size has considerable value in determining the scale of managerial responsibility, we are also aware that there are considerations that may make it necessary for a Public Sector Undertaking to be unitary in character. We may point out here that these considerations have been cogently formulated in the Report of the Adiminstrative Reforms Commission on Public Sector Undertakings.

18.9.5. Another argument that is often advanced in favour of the proposal to divide the Corporation is that the unitary set up has failed to yield the economies of scale. It can be argued that a number of factors that existed and arose at the time of nationalisation, over which the Corporation itself had no control, have adversely affected the economies of scale and prevented the Corporation from realising the maximum benefits that might have accrued from its size. As the impact of these factors wears out, partly due to passage of time and partly due to administrative reforms, it may be possible to hope that the Corporation might achieve more success in realising the full benefits of scale. However, it is difficult to believe that more economies of scale may result from diminution in size.

18.9.6. Some of the difficulties and short-comings that are plaguing the Public Sector Undertakings and preventing them from achieving a desirable degree of efficiency are well known. These weaknesses and lack of efficiency will persist as long as these defects persist. We are not convinced that these defects will disappear with the division of the Corporation into five or more Units. Whether the Corporation continues as a unitary body or transforms itself into five or more Corporations, the need to remove these defects will remain, and if these defects are removed or reduced, the efficiency of the Corporation will increase to that extent, whether the Corporation has or does not have a unitary structure.

18.9.7. In some of the earlier paragraphs of this Chapter, we have referred to the urgent need for decentralisation of functions and delegation of authority in the Corporation, and have expressed the hope that this decentralisation will help to remove many of the shortcomings and defects that reduce the administrative efficiency of the Corporation. We have no doubt that the need for decentralisation will be as imperative in a split up set up as in the unitary set up. We would, therefore, suggest that a proposal to divide the Corporation should not be considered as an alternative to decentralisation, or *vice versa*. The decentralisation that we have proposed is necessary for improving the administrative efficiency of the Corporation. We have every reason to hope that when our proposals for decentralisation and administrative reform are implemented, the administrative efficiency of the Corporation will increase and the level of expenses will be brought under Control.

18.9.8. The decentralisation that we have recommended has to be achieved at various levels. Powers and functions have to be effectively transferred to lower levels. As we have already stated elsewhere in this Report, one of the major steps that will have to be taken to decentralise authority and responsibilty is to abolish the present Zonal Offices. We realise that the abolition of the Zonal Offices and the redistribution of their responsibilities to the Central Office and the Divisional Offices will take some time, and perhaps give rise to some difficulties that will have to be ironed out. *We, would, therefore, recommend that some kind of machinery may be set up to supervise the implementation of the proposals and the reorganisation of the Corporation in the areas coming under the present Zonal Offices. This may be a Zonal Cell in the Central Office, built around a senior officer, but with the minimum number of staff, and meant only for the supervision and reorganisation that will be necessary during the period of transition. The Zonal Office in its present dimension, and as an administrative tier will cease to exist, and this will lead to economy, increased delegation and decentralisation of powers and increased efficiency.*

18.9.9. We are aware that it might take some time before our proposals for decentralisation come into effect and the Government and the public get an opportunity to observe whether the evils and shortcomings that are at present hampering efficiency and increasing expenses, have been brought under control by decentralisation and the other proposals that we are making in this Report. *We would, therefore, strongly urge that all our proposals for effecting economy, spreading insurance, increasing administrative efficiency and re-organisation be given a fair and full trial before the Government considers other alternatives that might have been put forward for the re-organisation of the structure of the Corporation. If, after a full trial has been given to the proposals that we have made, the Government feels that the results that have flown from the implementation of our proposals have not adequately improved the level of expenses and the administrative efficiency of the Corporation it will, of course, be open to the Government to examine whether the present difficulties of the Corporation are the inherent consequences of the unitary form of the Corporation, and consequently capable of removal only by altering the unitary structure of the Corporation, and re-fashioning it as a federal apex Corporation with autonomous Corporations or completely independent and competing Corporations in the Public Sector, subject to the general control and supervision of the Government or whether the malady, and, therefore, the remedy lies outside the nature of the structure.*

Constitution of the Corporation:

18.10.1. The constitution of the Corporation and the qualifications that the Central Government has to bear in mind in appointing the Members of the Corporation are outlined in Section 4 of the Life Insurance Corporation Act, 1956. These provisions state that the Corporation shall consist of not more than 15 Members and these Members shall be responsible for the efficient functioning of the Corporation. Section 19 of the L.I.C. Act permits the Corporation to "entrust the general superintendence and direction of its affairs and business to an Executive Committee consisting of not more than five of its Members, and the Executive Committee may exercise all powers and do all such acts and things as may be delegated to it by the Corporation". The Executive Committee thus exercises all powers delegated to it under the Act and under Regulations 17 and 18 of the Life Insurance Corporation Regulations, 1959. A look at these provisions will suffice to show that the day-to-day functioning of the Corporation is in effect intended to be vested in the Executive Committee. Regulations 32 and 33 of the Life Insurance Corporation Regulations 1959, leave no doubt that though the Executive Committee is in charge of the day-to-day functioning of the Corporation, its powers are virtually exercised by the Chairman of the Corporation. Section 19(2) of the L.I.C. Act permits the Corporation to constitute an Investment Committee and Section 19(3) of the Act permits the Corporation to set up any other Committee it may deem necessary for the effective functioning of the Corporation. At present, the Corporation has an Investment Committee, a Services and Budget Committee, a Building Committee and a Public Relations Committee.

18.10.2. During the discussions that our Committee had with the Chairman of the Corporation, the Chairman (as also the Managing Directors) informed us that the Corporation, the Executive Committee and the other four Committees, met once a month and on the same day. He also told us that the meetings of the Corporation sometimes lasted only for 10 to 15 minutes, while at other times, they lasted a few hours. The meetings of the Executive Committee too did not take much time generally, even though the Executive Committee is expected to direct the day-to-day functioning of the Corporation. The representative of the Ministry of Finance, Government of India, informed us that some years ago, the Executive Committee used to meet more frequently—probably once a week. When we asked for his views on the adequacy of the duration of the meetings of the Corporation as well as the Executive Committee, he told us that as far as he could remember no item on the Agenda was left unfinished at the end of the meeting.

18.10.3. Considering the magnitude of the Corporation and the administrative tasks that it has to deal with, we wonder how the Corporation can give effective and detailed attention to its responsibilities by meeting for about an hour every month. We wonder whether the frequency and the duration of these meetings permit the members of the Corporation to play the role that Parliament has visualized in the L.I.C. Act. The papers that have been furnished to us do not show that the meetings of the Corporation have discussed such vital questions as the planning and conservation of business, media for procuration, the cost of the Corporation's working etc. in a systematic or thorough manner. In fact, we have noticed that when some Members did come out with suggestions on vital issues like the expense level, cost ratio or conservation of business, their suggestions were

not examined seriously, the results of further study, if any, were not reported to subsequent meetings and no serious action was taken even to examine the feasibility or utility of these suggestions. Considering all these, we are left with the impression that the Board has not been discharging its functions as effectively as it should have done.

18.10.4. It appears to us that this unsatisfactory state of affairs has resulted primarily from the manner in which the Executive Committee has functioned. Unfortunately, this Committee has not been meeting as often as it should have met, and has been content to leave the general control entrusted to it by the Corporation in the hands of one individual. This is obviously undesirable and unjustifiable, and in our view, repugnant and contrary to the concept of collective responsibility envisaged in the Life Insurance Corporation Act 1956. The present system in which the Corporation's powers are delegated to the Executive Committee, and the Committee permits these powers to be exercised by the Chairman leads to a virtual ellipsis of the roles of the Corporation and the Executive Committee and the concentration of all initiative and functions in an individual, *viz.*, the Chairman. *We, therefore, recommend that while appointing the Members of the Corporation, the Central Government should take care to see that the persons chosen, are men of outstanding ability and experience who will be able to devote the time and attention that Membership of the Corporation would entail. They should not only satisfy the qualifications mentioned in Section 4 of the L.I.C. Act, but also be firm believers in the social objectives of the Undertakings. The frequency with which the Corporation meets now is not adequate for the efficient functioning of the Corporation. The Corporation should, in our view, meet more frequently than now, and the time devoted to the meetings should be adequate to allow Members to deal with all matters requiring attention and to participate fully in the evolution and implementation of policy. We also recommend that steps be taken to ensure that the Corporation itself or the Executive Committee discharges its responsibility for the day-to-day functioning of the Corporation, without leaving such important matters to one individual, howsoever capable he may be.*

Chairman:

18.10.5. The Chairman who is one of the 15 Members of the Corporation is the Chief Executive, and he exercises his powers under Regulation 32 of the L.I.C. Regulations. Since 1956, there have been six Chairmen :

(*i*) Shri H. M. Patel	1-9-1956 to 5-6-1957.
(*ii*) Shri G. R. Khmat	6-6-1957 to 10-4-1958
(*iii*) Shri P. A. Gopalakrishnan . . .	10-4-1958 to 28-2-1962
(*iv*) Shri B. K. Kaul	1-3-1962 to 28-2-1965
(*v*) Shri B. D. Pande	2-3-1965 to 5-1-1967
(*vi*) Shri M. R. Bhide	12-1-1967 to date.

Several witnesses have pointed out to us that all these gentlemen who hold the high office of the Chairman have been drawn from the administrative services, and have had to take up the responsibility without any previous knowledge or training in matters relating to insurance. Moreover, they have held the office for brief periods, often giving them very little time to get acquainted with the problems of this new field of work. We have no doubt that these short durations and frequent changes have not been conducive to the effective functioning and progress of the Corporation. We do not think that the fact that a highly competent person is from the Civil Service should be regarded as a disqualification for his being appointed Chairman of the Corporation, if the Government is convinced that he is fully competent for the position. Nor do we think anyone who is otherwise competent or desirable should be disqualified because he is not a Civil Servant. It is clear to us that the main consideration should be his competence and experience, and we believe that this highest position in the Corporation should, therefore, be open to those who have grown to the requisite stature and competence within the field or the organisation itself. It is equally clear to us that the Chairman should have a reasonably long tenure that enables him to settle down and show results. In the course of evidence, the representative of the Finance Ministry told us that a term of 3 years' would be adequate, while the Chairman of the Corporation was of the firm view that the tenure of the Chairman should be for minimum period of five years. We are inclined to agree with the views of the Chairman of the Corporation. *We accordingly, recommend that while appointing a person as the Chairman of the Corporation, the Government should satisfy itself that the person would serve as the Chairman of the Corporation for a minimum of five years. We also recommend that men with the requisite stature, competence and experience from outside the Civil Service should also be considered eligible for the Chairmanship of the Corporation.*

18.10.6. We have observed that during the first two years of the Corporation's existence *viz.* 1956-58, not only the Chairman, but the two Managing Directors and the three Executive Directors two were Members of the Corporation. After 1958, none of the Managing Directors or Executive Directors has been appointed a Member of the Corporation. When we asked the representative of the Ministry of Finance for the reasons that promoted the Ministry to make this change, the representative told us that he was not aware of the reasons.

18.10.7. The experience of the last 12 years has shown that the Corporation itself cannot be expected to look after the day-to-day working of the Corporation. This function will, it appears to us, be continued to be performed by the Executive Committee. At present, however, this Executive Committee is composed of not more than five Members of the Corporation including the Chairman. As the other four Members in the Executive Committee are not full time Members, they too might not be in a position to spend as much time as is necessary for dealing with the day-to-day problems of the Corporation. We would, therefore, suggest that the Members of the Executive Committee should be able to devote their full time to the work of the Corporation. *We accordingly recommend that out of the 15 Members of the Corporation, six Members including the Chairman, should constitute the Executive Committee of the Corporation and all the Members of the Executive Committee should be full time Members. Like the Chairman, the other five Members of the Executive Committee,*

who may be described as Functional Members, may be appointed for a minimum period of five years. While appointing the Functional Members, performance may be given to the seniormost officers of the Corporation who are well-acquainted with the various aspects of the Corporation's working and who, in the opinion of the Central Government, are men of outstanding competence and experience fit to occupy such high positions in the Corporation.

Organisational set up:

Present position:

18.11.1. In terms of the Life Insurance Corporation Act, 1956, the Life Insurance Corporation of India has its Central Office located at Bombay, and five Zonal Offices at Bombay, Calcutta, Delhi, Kanpur and Madras. Each Zone wih a defined exclusive territory is divided into a number of Divisions with specified jurisdictions. Each Division has in its area a number of Branch Offices, Sub Offices and Development Centres. The set up of the Corporation as on 31st March, 1968 can be seen from the Map of India that has been appended to this report. The position can be summarized as follows:—

Central Office.
&
&

&	&	&	&	&
&	&	&	&	&
Western Zone	Eastern Zone	Northern Zone	Central Zone	Southern Zone
&	&	&	&	&
&	&	&	&	&
8 Div. Offices	8 Div. Offices.	4 Div. Offices.	7 Div. Offices.	9 Div. Offices.
130 B Os. S.Os.& D.Cs.	143 B.Os., S.Os.& D.Cs.	106 B.Os., S.Os.& D.Cs.	126 B.Os., S.Os.& D.Cs.	196 B.Os., S.Os.& D.Cs.

Besides the above, there are a number of I.H.O. and I.B.O. Units to service the existing policies of some of the erstwhile insurers.

The Central Office:

18.11.2. The Departmental structure of the Central Office gives an idea of the functions that the Central Office is performing to day.

Name of the Department	*eaded by*
1. (*a*) Development Department	Managing Director (I)
(*b*) Publicity Department	,, ,,
2. Actuarial Department	Chief Actuary with Zonal Manager's rank.
3. Accounts Department	Executive Director.
Personnel and Establishment Departments	Executive Director.

Name of the Department	Headed by
5. Investment Department . .	Executive Director.
6. Buildings Department . . .	Chief Engineer witb Zonal Manager's rank.
7. Internal Audit Department .	Chief Internal Auditor with Zonal Manager's rank.
8. Inspection and Organisation and Methods Departments . .	Zonal Manager.
9. General Insurance Department .	Zonal Manager.
10. Legal Department . . .	Chief Law Officer with Deput Zonal Manager's rank.
11. E. D. P. Department . . .	Manager with the rank of Deputy Zonal Manager.

18.11.3. We have been told that the Central Office of the Corporation is a policy-making and co-ordinating body, with direct executive responsibility only in a very limited field. It mainly co-ordinating the activities of the various Zones and confines itself to giving broad policy directions and decisions on Inter Zonal matters. Formulating an Investment policy and investing funds in accordance with the policy are wihin the exclusive competence of the Central Office. In addition to the formulation of underwriting standards, the Central Office also underwrites proposals for large amounts and for sub-standard lives beyond the authority delegated to the Divisional and Zonal Offices. Standardisation of procedures and forms, drawing up of prospectus, premium rates, policy conditions and making arrangements for reinsurance are also looked after by the Central Office. Besides these, the work relating to publicity, Inspection and Internal Audit are also being attended to at the Central Office. In other words, apart from the work of specific Departments like the Investment Department, Inspection, Organisation and Methods Departments, Internal Audit Department and the E.D.P. Department, the work being done in the other Departments is one of co-ordination and the evolution of the general policy of the Corporation that subordinate offices are expected to follow.

Zonal Offices:

18.11.4. The Zonal Offices generally have the following Departments:—

1. Actuarial Department;
2. Accounts Department;
3. Development Department;
4. Secretarial and Personnel Department; and
5. Integration Department.

Each Zonal Office is in charge of a number of Divisions, and has the authority to execute the decisions of the Corporation and to co-ordinate the working of those Divisions. The Zonal Offices have also to ensure that uniform standards are maintained in the Divisions and the efficiency of the

Divisional Offices kept at the highest level. In short, it can be said that the Zonal Offices are primarily expected to function as supervisory and co-ordinating bodies supervising the work of the Divisional Offices under their charge.

Divisional Offices:

18.11.5. The Divisional Offices, it is claimed, are equivalent to the Head Offices of the erstwhile insurance companies of the pre-nationalisation days. There are 36 Divisional Offices in the different parts of the country. The primary functions performed by these offices include the development of Organisation and new business, planning and executing various new business drives, policyholders' servicing, underwriting new business, scrutiny and settlement of claims and maintenance of the account relating to these activities. The Divisional Offices are stated to have liberal limits for underwriting purposes. The Divisional Offices function through the following departments:—

1. New Business Department;
2. Policyholders' servicing Department;
3. Cash and Accounts Department;
4. Development Department; and
5. Establishment Department.

Branch Offices:

18.11.6. We have been told that each branch office functions in an area in which a minimum new businesss of Rs. 1 crore has been completed. The main function of the Branch Offices appears to be to procure business. Some of these offices render some minor P.H.S. functions like the collection of renewal premium and, in some cases, grant of first loans. A branch office functions through the following departments:—

1. New Business Department;
2. Development Department;
3. P.H.S. Department;
4. Accounts Department; and
5. Establishment Department.

Branch Offices located at Divisional and Zonal Headquarters seem to be confining their activities to the procuration of new business and the development of organisation. Functions relating to P.H.S. are not attended to by them, these being looked after by the respective local Divisional Offices.

Sub-Offices:

18.11.7. Sub-Offices are miniature branch offices. While some of them confine their attention to the procuration of new business and the work development some render some minor services to policyholders. The criterion for the opening and retention of a Sub-Office is at present a new business of Rs. 75 lakhs. Sub-Offices are manned by an Assistant Branch Manager (Development) assisted by a smaller staff than in a branch office.

Dev. Centres:

18.11.8. Development Centres are opened and retained on the criterion of a completed new business of Rs. 50 lakhs, and are manned by A.B. M(D)s. without any staff to assist them. We were told that these centres have been opened in underdeveloped areas with a view to developing business.

18.11.9. A chartwise summary of the functions being performed at the various offices of the Corporation is available in the Appendix 59.

18.11.10. From a scrutiny of the Organisational pattern of the Corporation, one can readily see that the Branch Offices and the Divisional Offices are the mainstay of the Corporation; it is, therefore, clear that the Corporation can achieve its objectives and improve its efficiency only if these offices are endowed with the essential powers and resources required for expedition and efficiency. The Branch and Sub-Offices should form the real base of the Corporation. But we have noticed that all of them are not performing uniform functions today. We can understand the Branch Offices located at the Divisional and Zonal Headquarters not being entrusted with P.H.S. functions; but we do not understand why other Branch and Sub-Offices are not asked to render essential and basic P.H.S. functions. we have no doubt that if Branches themselves begin servicing policyholders, the Corporation's clientele will be more satisfied, and this in turn will improve the magnitude and quality of business. Almost all the witnesses who appeared before us emphasized the need to build up the Branch and Sub-Offices as the base of the Corporation and we do appreciate the arguments they advanced in support of such an approach.

18.11.11. One of the Managing Directors of the Corporation told our Committee that the Branch Offices could be entrusted with the following additional responsibilities:—

(1) Application for renewal of agency licences now being routed through Divisional Offices could be entrusted to the Branch Offices.

(2) At present, in some Divisions, the renewal Commission Bills of agents are sent by the Divisional Offices to the Branch Offices, who in turn prepare the cheques and send them on to the agents. This work could be uniformly entrusted to Branch Offices.

(3) Underwriting of non-medical business could be entrusted to all the mofussil Branch Offices. (The question of extending it to the Branch Offices at the Divisional Headquarters will have to be considered in detail as it may not result in quicker disposal of work). Cancellation of proposals might be entrused to Branch Offices.

(4) Branch Offices could be entrusted with the work of granting first loans, upto a maximum of Rs. 1,000/-.

(5) Branch Offices could also be allowed to pay maturity claims upto Rs. 5,000/-.

18.11.12. These responsibilities would presumably be in addition to the work of collection of renewal premiums and issuing the relevant official receipts for premiums. Branch Offices and Sub-Offices could also be asked to handle age admissions and nominations and assignments under policies.

18.11.13. We believe that it will be highly desirable to entrust all the Branch and Sub-Offices of the Corporation with these P.H.S. functions. We were told that one of the reasons why these functions could not be done at the Branches and Sub-Offices was the non-availability of competent staff and another was the fact that some of these functions entail the use of machines. We are not in a position to appreciate these arguments, since we believe that if these functions are transferred from the Divisional Offices where they are at present being performed, the concerned personnel at the Divisional Offices will also be available for utilization at the Branch and Sub-Offices. We do not, however, suggest that functions that need the use of machines like the Punched Card (not the Adrema and Embossing Machines) machines should be transferred from the Divisional Offices to Branch Offices and Sub-Offices. The idea should be to decentralize functions to Branch Offices and Sub-Offices, while maintaining centralised records at Divisional Offices.

18.11.14. As for the procuration of new business, it appears to us that the targets fixed for the various Units are very low. If the Branch and Sub-Offices are entrusted with some P.H.S. functions and if, for that reason, the strength of their staff increases, these units will not be viable with the present new business criterion of Rs. 1 crore. The criterion will have to be stepped up. In our view, a minimum new business of Rs. 2 crores should be fixed as the criterion for all branch and sub-offices located in places with a population of less than 5 lakhs (according to the latest census). The criterion for the branch offices located in places with populations of 5 lakhs or more, should be fixed at Rs. 4 crores.

18.11.15. We do not think that the distinction that is being made at present, between a Branch Office and a Sub-Office is warranted by circumstances. In future, it is desirable to have only one tier below the Divisional Office (besides the Development Centre) *viz.*, the Branch Office, and all these branch offices should be entrusted with the same type of duties. *We recommend that in order to achieve the objectives that we have outlined, the following steps should be taken:—*

(1) *Remove the present differentiation between Branch Offices and Sub-Offices by suitably reallocating areas and personnel, so that, by the end of a period of two years there are only Branches that can satisfy the revised new business requirements.*

(2) *Raise the target of production of all the Branch Offices to a minimum new business of Rs. 2 crores in the case of offices located in places with a population of less than 5 lakhs (according to the latest census) and Rs. 4 crores in the case of offices located in places with a population of 5 lakhs or more (only completed business is to be counted).*

(3) *Allow these units a period of 2 years to satisfy the new criteria laid down for new business. If within this period of 2 years, the concerned offices do not come up to the expectations, a review should be made and suitable action taken.*

(4) *Within a period of two years, transfer all the P.H.S. functions referred to in the foregoing paragraphs from the Divisional Offices to the Branch Offices.*

(5) *Re-train the staff that will become surplus in the Divisional Offices when these P.H.S. functions are transferred to the Branches, and reallocate them to the Branch Offices, thus providing all Branch Offices with adequate staff to discharge the functions entrusted to them, including the realisation of the revised new business criteria.*

Divisional Offices:

18.11.16. Turning now to the Divisional Offices, it appears to us that with the transfer of the P.H.S. functions to the Branch Offices, the Divisional Offices would be able to take over from the Zonal Offices the work of co-ordinating and supervising the functioning of the lower offices. At present, the Divisional Offices, though loosely called the equivalents of the Head Offices of the erstwhile insurers, do not seem to enjoy any autonomy. All powers of administration now seem to be concentrated at the Central Office, and to a large extent at the Zonal Offices. Efficiency and better results can be expected only when the requisite administrative powers necessary for day-to-day functioning are delegated to the Divisional Offices. *We accordingly recommend that an immediate review of the administrative, as distinct from the financial powers now being exercised by the Central and Zonal Offices should be conducted to determine the administrative powers that should be delegated to the Divisional Offices, in order that the Divisional Offices may function in the same manner and with the same powers as the Head Offices of the erstwhile insurance companies, of course, subject to the difference that they are units of the same Corporation. We also recommend that the supervisory and other functions like recruitment of staff, maintenance of Provident Fund and House Property Accounts, etc. should be transferred to the Divisional Offices. We recommend that this redistribution and delegation of powers should be completed in the course of the next two years.*

Zonal Offices:

18.11.17. Most of the witnesses who appeared before the Committee told us that the present Zonal Offices were superfluous and could be abolished. Some of the expert bodies that studied the working of the Corporation, like the working group of the A.R.C. have also expressed similar views.

18.11.18. Our own study of the problem has led us to the conclusion that some of the functions that are at present being performed by yhe Zonal Offices can be transferred to the Divisional Offices, and other functions like Actuarial Valuation, underwriting of proposals above the limits laid down for the Divisional Offices, and the general superintendence and guidance etc. can be taken over by the Central Office. As far as Actuarial Valuations are concerned, there will be considerable economy if the valuation for the whole Corporation could be done at the Central Office. This

will avoid the need for the five valuations, now being performed at the Zonal Offices. The other matters dealt with by the Zonal Offices are matters that can be easily taken over by the Central Office without having to add to the present staff strength.

18.11.19. Nearly three crores are being spent on the Zonal Offices today. If we could abolish these offices by adopting the suggestions that we have made, there will be a significant and substantial saving to the Corporation. Every effort should be made to see whether these offices cannot be abolished in the near future. *We, therefore, recommend that duties like the recruitment of staff, enforcement of discipline, maintenance of Provident Fund Accounts, House Property Accounts, etc., that can be appropriately transferred from the Zonal Offices to the Divisional Offices shoul immediately be transferred to the Divisional Offices, other duties like Actuarial Valuation, underwriting of proposals beyond the limits that may be laid down for the Divisional Offices, and general superintendence and guidance etc. may be transferred to the Central Office and the Zonal Offices may be abolished, subject to the recommendation that we have made about the necessity to maintain Zonal cells in the Central Office during the period of transition. We recommend that this proces of reorganisation should be completed during the next two years.*

Central Office:

18.11.20. Our study of the structure of the Central Office has given us the impression that even at this high level cost consciousness is not so high as it has to be to ensure economy and management efficiency. As we have already pointed out, each of the departments is under the charge of an Executive Director or an Officer of the rank of a Zonal Manager or a Deputy Zonal Manager. Considering the quantum of work and responsibilities held by a Zonal Manager, if he is in charge of a Zone and the responsibilities shouldered by an Executive Director or Zonal Manager in charge of a Department at the Central Office, we feel that the authorities concerned should have exercised greater care in the expansion of the Central Office. Earlier in this chapter we have recommended the appointment of Functional Members who will hold charge of well defined departments. The present pattern of employing such highly-paid offices has to be reviewed in the light of these recommendations. *We, therefore, recommend that an immediate review be made of the charges held by the top officers of the Corporation in order to see how responsibilities can be redistributed and each of the Functional Members entrusted with the charge of one or more departments to ensure well-defined and equal distribution of work. We also recommend that the working of the Central Office may be streamlined to ensure proper co-ordination among the various departments.*

CHAPTER XIX

GENERAL INSURANCE

Historical

19.1.1. At a meeting held on 25th November 1963, the Life Insurance Corporation decided to transact General Insurance business as a non-tariff insurer without subscribing to the voluntary code of conduct of the General Insurance Council. The Corporation is allowed to carry on General Insurance business under Sub-Sections 2(g) and 2(h) of Section 6 of the L.I.C. Act, 1956. Since the Corporation did have this statutory authority, it felt that its vast organisation consisting of a net work of Agents, Development Officers and various offices could be fully utilised to develop General Insurance Business too, without any detriment to its life insurance business.

19.12. In September 1965 after the L.I.C. had been in the General Insurance business for about a year, the L.I.C. Act was amended by introducing Section 28A which provided for the "profits" of the General Insurance business of the L.I.C. being paid to the Central Government.

19.1.3. Prior to 1st January 1966, the Government's insurances were entrusted to the Indian Insurance Companies' Association Pool. All the Indian insurers were members of the Pool, and shared the business in certain predetermined proportions. The position in 1965 was that 75 per cent of the "Pool" business was with the Oriental Fire and General Insurance Co. Ltd. (a 100 per cent subsidiary of the L.I.C.), and the Jupiter General Insurance Co. Ltd., a Company under an Administrator. The aggregate share of the other insurers was 25 per cent.

Organisational set-up:

19.2. The Agents and Development Officers of the L.I.C. are common for the General and Life Departments. The Branch Offices attend to only some simple work like the issue of Cover Notes/Certificates in respect of Fire and Motor business and some simple types of miscellaneous business upto certain prescribed limits. The underwriting of complicated business is done either at the Divisional Office or at the Central Office. Generally, no staff is separately allocated for this purpose in the Branch Office, but one of the Branch Assistants is trained for this work, and the work is done by him in addition to his normal work. The Divisional Office is the main administrative office dealing with the issue of policies. settlement of claims etc. A separate Department is, therefore, maintained at the Divisional Offices, normally in charge of an Assistant Administrative Officer. The Zonal Offices do not have any technical functions to perform. One officer has been posted in each of the Zonal Offices to look after development and personnel matters only. There is a General Insurance Department at the Central Office and this is under a Zonal Manager. Specialised types of business like Marine Hull, Aviation Hull etc. are handled by the Central Office.

Performance :

19.3.1. The L.I.C.'s Gross Premium income for the General Insurance written direct in India for the years 1964-65 to 1967-68 was as under :—

Year	Fire	Marine	Miscellaneous	Total
	(Rs. in lakhs)			
1964-65 . . .	..	..	..	46·52
1965-66 . . .	95·63	93·79	67·62	257·04
1966-67 . . .	204·24	301·47	193·96	699·67
1967-68 . . .	280·94	552·56	428·10	1,261·60

19.3.2. The following table gives the classification of the premium income of the Corporation according to the source of business :—

Gross Premium Income (In lakhs of rupees)

Year	Government Business	Tied Business	Ope Business	Total
(1)	(2)	(3)	(4)	(5)
1964-65 . . .	N.A.	N.A.	N.A.	46·52
1965-66 . . .	157·16 (61·09)	35·02 (13·61)	64·86 (25·30)	257·04
1966-67 . . .	544·89 (77·86)	68·03 (9·71)	86·75 (12·43)	699·67
1967-68 . . .	1,031·42 (81·78)	126·85 (10·06)	103·33 (8·16)	1,261·61

.B.—The figures within brackets under columns (2), (3) and (4) represent the percentages to the total business shown in column (5).

19.3.3. It may be observed from these figures that a major portion of the business that the Corporation does is derived from Government sources and a small proportion from "tied" accounts arising from the investments made by the L.I.C. As no separate Revenue Accounts are maintained for these categories of business, no comparative estimates could be made about their respective cost of procuration, administrative cost, profitabilities, etc.

Direct Expenses and allocation of common expenses:

19.4.1. The expenses of the General Insurance Business of the L.I.C., may be classified under two broad heads. (1) Direct Expenses, and (2) Expenses incurred in common between the Life and General Insurance Departments and allocated between these two Departments in the manner decided upon by the Corporation.

19.4.2. The Direct expenses (excluding commission in respect of General Insurance Business) which fall under the following heads are met directly by the General Insurance Department.

(1) Salaries and Bonus of Staff exclusively working for the General Insurance Department.

(2) Policy Stamps.

(3) Conveyance Allowance (relating to officers specifically working for the General Insurance Department).

(4) Travelling Expenses (relating to officers specifically working for the General Insurance Department).

(5) Motor Car Expenses. (ditto)

(6) Printing and Stationery.

(7) Postage and Telegrams.

19 4.3. The expenses common to both Life and General Insurance Departments arise because the Branches, Divisions, Zones and the Central Office look after some aspects of the work of both these Departments. They fall under the following heads :—

(1) Salaries of Class I Officers other than those who are wholly employed for Life Business or General Insurance Business.

(2) Corporation's contribution to Provident Fund on the above.

(3) Telephone charges.

(4) Electricity charges.

(5) Tabulating etc. Machines Rental and Maintenance.

(6) General charges

(7) Premia paid for cash-in-transit insurance.

(8) Rents for offices belonging to and occupied by the Corporation.

(9) Rents of other offices occupied by the Corporation.

(10) Depreciation on office furniture, Equipment, vehicles, etc.

19.4.4. The manner of allocation of expenses incurred under these heads between the Life department and the Genearl Insurance Department, may now be considered at the level of each tier of the Corporation.

(a) At the Branch Office, the direct expenses relate mainly to Printing and Stationery, and Postage and Telegrams, as no separate staff has been provided exclusively for general insurance business. Moreover, Development Officers are paid a bonus commission on the General insurance business brought in by them and the Branch Managers and Assistant Branch Managers are paid a Cash Award according to the General Insurance Business of the Branch. These are also treated as direct expenses. As regards common expenses, the salaries of Brach Managers, Asstt. Branch Managers and Development Officers are allocated between the Life and General Insurance Departments in the proportion of total First Years Life Premium to the Gross Direct Premium (General) of the market business of the Division including the Branch market business.

(b) In a Divisional Office, Officers of the New Business and PHS Departments are deemed to be working exclusively for Life Business. All other officers (excluding officers working in the General Insurance Department) are deemed to be common. The total salaries of Class I Officers after deduction of the salaries of officers mentioned above are allocated between the Life and General Insurance Departments in the proportion of the total Life Premium Income (First Years and Renewal) to the total General Premium Income. All other common expenses are also allocated on the same basis. It may be noted here that the common expenses are first incurred on the Life side, and subsequently the share of the General Insurance Department is allocated.

(c) Since the Zonal Office is not assigned any specific functions in the operational scheme for General Insurance Business, no allocation of Common expenses is being made at these offices.

(d) With regard to the Central Office, allocation of common expenses has been made broadly on the basis of the expected total Premium Income of the Life Insurance Business and the expected Gross Premium Income of the General Insurance Department.

19.4.5. The total amount of the common expenses and the amount of such common expenses allocated to General Insurance Department are given below :

(Amounts in thousands of rupees)

Year	Total amount of common expenses	Common Expenses allocated to General Insurance Department
	Rs.	Rs.
1965-66	28,60,47	16,44
1966-67	31,97,04	33,16
1967-68	34,98,88	43,54

19.4.6. The staff strength of the General Insurance Department of the L.I.C. as at 31st March 1965 to 31st March 1968 was as shown below :—

Staff Strength (General Insurance Deptt.) (other than common officers and staff).

	As at			
	31-3-1965	31-3-1966	31-3-1967	31-3-1968
Class I	80	108	115	117
Class III	221	536	657	818
Class IV	20	75	74	84
	321	719	846	1019

Criticism of the method of allocation:

19.5.1. Since most of the Branches (excepting City Branches) are doing some policy servicing work on the Life side, it might not be proper to take only the First Year Life Premium, and not the total Life Premium into account for the purposes of allocation. Further, as Development Officers are paid a Bonus Commission on the General Insurance premium, and Assistant Branch Manager and Branch Managers get Merit Awards in respect of the General Insurance Premium, the allocation of the salaries etc. of these officials, which are included under common expenses seems to be defective in the sense that when the salaries of these officials get allocated between the Life and General Insurance Departments, the General Insurance Department gets charged twice for their service—once by direct payment of bonuses and awards, and a second time by sharing their salaries.

19.5.2. The allocation of staff salaries in the Divisional Office may be examined first. Officers in the Machine Department or Group Superannuation Department work exclusively for the Life Department, hence charging a share of the salaries of the Officers and the expenses on the repairs, rentals and maintenance of the machines to the General Insurance Department would not appear to be in order. In the Development and Accounts Department, the General Insurance work is only a fraction of the work generally entrusted to an Assistant Administrative Officer in these departments; hence leading the General Insurance Department with a portion of the salaries of Officers looking after other work in these Departments would also appear to be improper. In the case of Electricity Charges, rents, depreciation and Cash-in-Transit Premium, it should be possible to ascertain the actual expenditure justifiably chargeable to General Insurance Business on the basis of light points, floor area, furniture and Cash-in-Transit. To allocate these expenses too on the basis of the Premium Income, would therefore, appear to be a faulty and unfair way of dividing the expenses. As the premium income of the Divisions increases, this defect will assume a greater mangnitude. Hence, even though the difference may not be significant now, a proper system of allocation has to be evolved.

19.5.3. Though no allocation of common expenses is necessary at the Zonal level, in practice, as seen from the papers furnished to the Committee, there has been such an allocation in some Zones, resulting in a charge on the General Insurance Department even though no services are rendered by the Zonal Offices.

19.5.4. In the Central Office, expenses incurred in respect of Departments other than General Insurance Department are allocated according to Life Premium and General Insurance Premium. There are departments like the Actuarial Department, Mortgages Department, Buildings Department (residuary revenue expenses), Development Department, Presonnel Department, etc., whose expenses (the major portion are salaries), are allocated in this manner even though they have practically no functions that relate to General Insurance business. Since the Accounts Department is common, it requires a closer look. In view of what we have stated, it is clear that an allocation in proportion to premiums, especially when the General Insurance Premiums are increasing rapidly, would imply a subsidy from the General Insurance to Life Insurance.

19.5.5. As we have explained in the preceding paragraphs, all common expenses, except a certain portion of salaries, are allocated according to the total premium income. The growth of the General Insurance Department's premium income has been mare rapid. Again, a very large portion of the General Insurance Department's premium income arises from Government Business and 'Tied' business which are procured without any effort, as compared to "Open Market" business. We, therefore, believe that the premium basis of allocation does not reflect a correct picture of the efforts put in on General Business.

19.5.6. The method of allocation does not facilitate the emergence of a fair picture of the working and efficiency of the General Insurance Department, nor does it follow its administrative requirements. Further, from the papers that have been furnished to the Committee, it appears that there have been many cases of incorrect allocations at different levels. Thus, with the information that we have at present, it will be very difficult to assess what should have been the General Insurance Department's proper share of the amount of expenses; by and large it would, however, appear that an unjustifiably large share of expenses has been allocated to the General Insurance Department. It may be relevant here to refer to the provisions of Section 40B of the Insurance Act 1938. According to Section 40B, the management of the insurer and its auditor have to certify that all expenses of management wherever incurred, whether directly or indirectly, have been debited in the revenue accounts of the Life Insurance Business as expenses. Viewed against this background, it would appear that what the Corporation has done since 1964-65 is not correct. Section 10(2) of the Insurance Act prescribes that all receipts in respect of life insurance business "shall be carried to and shall form a separate fund to be kept separate and distinct from other assets of the insurer." It might perhaps be contended that this does not place any legal ban on the Life Department receiving assistance from others. Even so, unless such defects are corrected, it becomes difficult to assess the efficiency of the different Departments. *We, therefore, recommend that the Corporation should evolve a scientific system of allocation of common expenses, taking all factors into account, so that only a just and equitable share of the common expenses is charged to the General Insurance Department.*

Position of LIC in the Market

19.6.1. Till the 1st January 1966, Government Business was being placed with the Indian Insurance Companies' Association Pool. Consequently the General Insurance Business of Indian Insurers included Government Business also. As separate figures of Government Business so placed with the Indian Insurers are not available, it is not possible to have a comparative picture of the position of the L.I.C. *vis-a-vis* the other Insurers in regard to the "Open Market" and "Tied Business", for the period prior to 1st January 1966.

19.6.2. Subsequent to 1st January 1966, the business being procured by Indian Insurers is only. "Open Market" or "Tied Business". The premium income of all these Indian Insurers is now available only for the year 1966. It amounted to Rs. 78.99 crores. As against these, the premium income of the L.I.C. under "Open Market" and "Tied Business" for the year 1966-67 amounted to Rs. 1.55 crores. This would indicate that by and large, the Corporation has been able to tackle only an insignificant fraction of the "Open Market" and "Tied Business" and its reliance has been more on Government business for which it enjoys a monopoly. Hence, it will not be unreasonable to state that the L.I.C. has not made any "dent" on the General Insurance Market.

Sharing of Profits:

19.7.1. As we have pointed out in an earlier paragraph, the General Insurance business of the Corporation falls under 3 distinct categories.

	Percentage of total Business (1967-68)
Government Business	81·78
Tied Business	10·06
Open Market Business	8·16

In so far as Government business is concerned, a view can be taken that since Government Property is not required to be insured, the Government could itself bear the risk in respect of its properties. Since the Corporation is a public undertaking the Government has chosen to insure its risks with the Corporation, and this process enables the Government to have the requisite insurance cover. The profits or losses relating to this transaction should therefore go to the Government in its capacity as the proprietor of the LIC. This does not result in any inequity to the policyholders either. Consequently, the provisions of Section 28A of the L.I.C. Act are not unfair or unreasonable in so far as it relates to Government business.

19.7.2. But we are not convinced that the position of "Tied" business is similar. The profits arising from "Tied" business also become transferable to the Government in pursuance of Section 28A of the L.I.C. Act 1956. As the tied business of the Corporation arises out of investments

in shares, debentures and loans made out of life insurance funds that belong to the life policyholders of the Corporation, it is but fair that any profit or loss arising out of the insurances emanating from these investments should belong to the life policyholders of the Corporation. To this extent, the provision of Section 28A of the L.I.C. Act seem to us to be inequitable. The inequity may be removed if the "tied" business is placed with the Oriental Fire and General Insurance Company Limited, which is fully owned subsidiary of the L.I.C. *We, therefore, recommend that the Corporation should direct all its "tied" business (General Insurance Business) to be placed with its fully owned subsidiary, the Oriental Fire and General Insurance Company Limited.*

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CHAPTER XX.

MAJOR CAUSES OF THE RISE IN THE LEVEL OF EXPENSES AND EXTENT OF POSSIBLE SAVINGS:

SECTION—I: MAJOR CAUSES OF THE RISE IN THE LEVEL OF EXPENSES

20.1.1. It is one of the terms of reference to our Committee that it has "to investigate into the cause of the present high level of expenses". In the various chapters, these causes have already been investigated, identified and explained. It is, however, felt necessary to enumerate them here for facility of reference. The following is the list of these causes:

Defective Standard of Expenses

20.1.2. The statutory status of the renewal expense ratio made it the basis of the policies pursued by the L.I.C. The inherent defects of the RER appear to have led to a subordination of the considerations of economy in securing new business, and to more attention being paid to larger and larger new business than to the conservation of business already secured. Achievement at the various levels or in various sectors of business such as rural, non-medical, etc. was being measured solely in terms of new business. An insufficient growth in the renewal premium and a higher new business cost ratio were the results of these policies. Normally there should be sufficient increase in the renewal premiums so that the renewal cost ratio is gradually reduced, other things remaining the same. In the case of the L.I.C. this did not happen; and hence there was no cushion against the adverse effect on the renewal cost ratio arising out of unfavourable changes in those "other things".

Inadequate Evaluation of the Results:

20.1.3. It was expected at the time of nationalisation that the renewal expense ratio would gradually be reduced to an appreciably lower figure than 15 per cent. There was no attempt to examine why this was not happening. Even when the renewal expense ratio was showing a small reduction from year to year as in 1960 and 1961, the nature of the reasons for this reduction whether temporary or continuing was not highlighted. Indeed the Corporation would appear to have been more concerned with keeping the renewal expense ratio within 15 per cent than with aiming at a gradual reduction in it from year to year or with keeping the expenses at the minimum possible level. This has naturally led to an overstepping of the limit as soon as inflationary conditions made it necessary to make upward revisions in the salary scales and allowances.

Over Expansion in Earlier Years

20.1.4. In pursuing the objective of nationalisation, viz. spreading insurance far and wide into the country-side, the Corporation had to open a number of offices in hitherto undeveloped parts of the country; and that has led to a rise in the level of expenses. Further, in deciding upon the

number of offices to be opened or the status of an office to be opened, whether a branch, a sub-office or a development centre, the *expectation* of business was the criterion right upto 1963. These expectations did not continue to be fulfilled from year to year, whereas the expenses involved in opening the offices were of a *permanent* and *increasing* nature. The widening gap between the shortfall in the expected business and the rise in the expenses led to an increase in the level of expenses.

Overstaffing :

20.1.5. Up to 1961, the strength of the staff of the various categories also depended upon the expectation of business. As the actual business was short of the expectations, the staff proved surplus. Additions to the staff caused a permanent and increasing addition to the expenses, so that with a shortfall in the business and consequent surplus in the staff, the level of expenses rose.

Non-Absorption of Surplus :

20.1.6. There has been an undetermined surplus in the staff strength of the Corporation right from the beginning. It appears that in the initial stages this surplus was covered by a lowering in the rate of the output. When later, cadre strength formulae were introduced, they helped in measuring the surplus at least according to these formulae, defective though they were. But beyond controlling the further recruitment in the particular office which showed a surplus staff, these formulae did not help in the elimination of the surplus. Staff from a surplus office could not be transferred to a "deficit" office on account of the oppostion of the staff to transfers. All these reasons have led to the existence of a surplus even now.

Indiscipline

20.1.7. Discipline has deteriorated very much in the Corporation, and this has led to a further lowering in the rate of output. As a result of this, the work is in arrears considerably in some of the offices. Arrears mean overtime and poor servicing which later leads to lapses.

Extraneous considerations in Revisions of Salary Scales and allowances :

20.1.8. In considering the proposals for the various revisions of salary scales and allowances, the factor of the ability of the Corporation as indicated by the cost ratios to bear the additional burden was not given as much weight as it deserved. Such revisions have so far required the ultimate sanction of Government, and the demands for revisions of salary were made by the unions of different classes of employees. The highest offices of these unions are held by leaders of political parties. These circumstances lend a political colour to the consideration of the various proposals for revisions of salary scales and allowances.

Absence of incentives and Disincentives :

20.1.9. There is no system in the Corporation whereby good or over average work is rewarded, and there has been a noticeable reluctance in punishing bad or underaverage work. This rigidity has destroyed all urge for better output, contributed to a felling of cynicism and made it difficult for a sense of belonging to develop among the various cadres of the staff.

Average Business of an Agent Low Quantity and Quality :

20.1.10. The average output of an agent and the persistency record of the business secured by him are far too low. This increases the administrative expenses disproportionately and hinders the growth of the renewal premium.

Lack of Firm Direction in the treatment of the Development Officers' cadre :

20.1.11. In terms of the Blue Order the Development Officers should have been assessed on an *overall* basis taking *all* the relevant factors into account. The Corporation failed to adhere to these provisions, with the result that the Development Officers' performance as regards cost ratio did not in each case become a necessary precedent to earning an increment. Permanent benefits were granted for temporary over-average performance in spite of full awareness of the undesirability of such a procedure, and no disincentives were provided for under average performance. While it was laid down in the Blue Order that "no increment shall be granted if the work is not up to an adequate standard", the Corporation had ultimately to accede to the demand of automatic increment for the Development Officers in March 1965. This vacillation in the Corporation's policy towards the Development Officers' cadre has contributed to a substantial rise in their average cost ratio and in the new business cost ratio.

Heavy Lapses :

20.1.12. Over the years from 1959 to 1965-66, nearly 18 to 24 per cent of the new policies issued in any year have lapsed after the payment of the first premium. The latest available figure, based on the sums assured, for the total lapse rate in the year of issue and in the next three years is about 40 per cent. Such a high proportion of lapsed business retards the growth in the renewal premium, which is so necessary for controlling the expenses level.

Inflation :

20.1.13. Recently there has been a continuous rise in the cost of living necessitating successive additions to the dearness allowance payable. Even under other items, such as Railway Fares and, therefore, in Travelling Allowance, Petrol, repairs and maintenance, printing and stationery, Postage, Telegrams and Telephones, and Tabulating Machines, there has been a rise in the cost due to increase in the prices. On the other hand, inflation has also produced an increase in the average sum assured, and, therefore, in the average premium per policy. However, it appears that this increase is not adequate to contain the effects of inflation.

Large Number of City Branches :

20.1.14 In cities too many branches are located in a small enough area. For instance, there are cases where the same building houses more than one branch, or two or more branches are set up in the same locality.

Opening of New Divisions:

20.1.15 New divisions were opened without the financial aspect of the step being considered.

Uneven flow of New Business :

20.1.16. There has been a heavy rush of new business during December of each year upto 1961. After the change in the accounting period from

1962-63, this rush has been divided over the two months March and December. Though the position has thus somewhat improved, there is still a disproportionately large new business booked in each of the months December and March. This necessitates payment of overtime and gives room for business of poor quality being booked, both these features leading a rise in the expense level.

Devaluation:

20.1.17. The devaluation of the rupee in 1966 has increased the rentals of the tabulating and E.D.P. machines.

Absence of Cost Consciousness:

20.1.18. There has been a general absence of the requisite degree of cost consciousness as is evidenced by the number of tours undertaken by various officers and the subsequent travelling expenses, non-utilisation of machines to their full capacity, or even to the prescribed extent, the jeeps in some of the divisions remaining idle for a fairly long time, absence of co-ordination between different departments in the same office resulting in separate letters being sent from it to its controlling office, many forms and returns being used for inter office communication without their being any real necessity for them, etc.

SECTION II. EXTENT OF POSSIBLE SAVINGS:

20.2.1. After studying the functioning of the Corporation and examining the causes for heavy expenses, we have made a number of recommendations in the various Chapters with a view to effecting economy. An attempt is made here to estimate the extent of economy that will ultimately result if all our recommendations are implemented. We are aware that it will take some time for the implementation in full of many of our recommendations. Also some of our recommendations are such that the economy arising out of them will be gradual and the full effect thereof will be felt only after a lapse of sometime (*e.g.*, our recommendation on "Development Officers"). It has also to be pointed out in this connection that under a number of recommendations made by us an estimate of the savings cannot be made on account of the absence of adequate information. As such it is only in the case of others that an estimate of the savings per annum has been made in the following paragraphs:

Staff:

20.2.2. From the evidence before us, there is a surplus of about 25 per cent in the staff of Classes I, III and IV. This surplus will eventually be absorbed by increase in business, if appropriate work norms are enforced. The present emoluments of the staff of the above categories are of the order of Rs. 23 crores. When business expands sufficiently to absorb this surplus a reduction in expenses of 25 per cent of this Rs. 23 crores, *i.e.*, Rs. 5.75 crores will emerge. This however will only be reflected as a reduction in the relevant cost ratios when the surplus staff is absorbed by the increase in business.

Development Officer:

20.2.3. The total emoluments at present paid to Development Officers come to about 25 per cent of the First Year premium. If the cost ratio of the Development Officers is on an average reduced to below 15 per cent,

then there will be a saving of about 10 per cent of the first year premium. On the basis of the first year premium of 1967-68 secured through the Development Officers (of about Rs. 30 crores), this saving will be about Rs. 3.00 crores. Here also, there will not be a cash saving but the effect of this will be felt as a reduction in the New Business Cost Ratio ultimately when the average cost ratio of Development Officers comes within 15 per cent.

Agents :

20.2.4. We have recommended a reduction in the first year commission of 5 per cent, from 25 per cent to 20 per cent under Standard Plans and Terms. We have also recommended that the renewal commission in the second year may be increased from 7½ percent to 10 per cent. When both these are implemented, there will be a reduction in commission of about 2½ per cent of the first year premium under Standard Plans and Terms. Allowing for a suitable proportion of policies under non-standard plans and terms, the estimate of savings under this head on the basis of first year premium of 1967-68 will approximately be Rs. 75 lakhs.

20.2.5. We have also recommended a new formula for payment of new life bonus commission to agents. This will also have the effect of reducing the bonus commission payable to agents but it has not been found possible to estimate the savings on this account due to non-availability of adequate data. For similar reasons it has not been found possible to estimate the savings due to reduction in the hereditary commission and reduction in renewal commission after the 11th year; part of these savings will be absorbed as additional cost in giving extra benefits to Senior Agents and implementing the Gratuity Scheme for Agents.

Abolition of Zonal Officers :

20.2.6. The expenses of the Zonal Offices to-day are of the order of Rs. 3 crores. As per our recommendation, part of the staff of the present Zonal Offices will be transferred to the Divisional Offices and another part to the Zonal Cells at the Central Office. It is difficult to make an exact estimate of the part that is required to be so transferred. However, assuming that about 40 per cent of the staff will be surplus, and ultimately absorbed in increase in business, the eventual savings that will be reflected in the reduction of cost ratios will be about Rs. 1.20 crores.

Medical Fees:

20.2.7. We have recommended increase in the limits under both Non-Medical General and Non-Medical Special Schemes. Assuming that as a consequence of this, 5 per cent more of new policies will come under Non-medical Schemes and on the average there will be a saving of Rs. 10 per policy, the savings on this head will come to about Rs. 7 lakhs.

Bonus Intimation Cards:

20.2.8. We have recommended the discontinuance of the practice of sending bonus intimation cards. This will lead to a saving of about Rs. 2½ lakhs on stationery and Rs. 14 lakhs on postage. As the saving will occur once in two years, the annual savings under this will be

approximately Rs. 8 lakhs. There will also be a saving on Machine hours and man hours required for preparation of bonus intimation cards, the savings due to which it has not been possible to estimate.

First Default Notice:

20.2.9. We have recommended the discontinuance of first default notice. Assuming that out of the present 1.2 crores of policies in force, premium notices are sent in respect of 80 lakhs of policies and that about 2/3rds of the policyholders pay the premium within the days of grace, first default notices will have to be sent to 27 lakhs of policyholders (with copies to Agents) on an average about 3 times in a year. The savings on account of the discontinuation of the first default notice will be of the order of Rs. 25 lakhs.

Premium Notices:

20.2.10. At present premium notices are being sent by 'Book Post' at a cost of 15 paise per notice. We have recommended that premium notices may be sent on post cards when the postage will be only 10 paise per notice. The saving in postage on this head will be about Rs. 12 lakhs.

Uneven Distribution of Business:

20.2.11. The present uneven distribution of new business means that the Corporation has to get the proposals processed and policies issued by working overtime. The expenses on overtime payments during 1967-68 are of the order of Rs. 28 lakhs. We have recommended certain steps to reduce the uneven distribution of business. Assuming that the above overtime figure is partly for processing new business and partly for other purposes and assuming that about half of the new business overtime will be reduced as a result of our recommendation, this saving will be approximately Rs. 6 lakhs.

20.2.12. As mentioned earlier, it has not been possible to quantify the amount of saving as a result of our other recommendations. On the whole, as per the estimates given above, there will be a total saving of Rs. 11.28 crores, a major part of which will emerge only as a reduction in the cost ratios when the business increases.

R. R. MORARKA,
Chairman.

RAVINDRA VARMA,
Member.

G. S. DIWAN,
Member.

M. J. RAO,
Member—Secretary.

NEW DELHI,
April 29, 1969

CHAPTER XXI

SUMMARY OF MAIN CONCLUSIONS AND RECOMMENDATIONS

Serial No.	Reference to Para. No.	Summary of Conclusions/Recommendations
(1)	(2)	(3)
1	1·11·3	The Renewal Expense Ratio (RER) cannot be accepted as a proper standard or index of expenses for the following reasons : (*i*) The RER does not correctly indicate the level of the cost of renewal administration ; (*ii*) The variations in the RER may be misleading, being not necessarily or wholly due to similar variations in the basic cost ratios ; consequently it is not a valid standard for comparison ; (*iii*) The RER is likely to lead to subordination of considerations of economy in planning for and securing new business, when the New Business Cost Ratio (NBCR) is consistently less than the New Business Expense Allowance (NBER) over a period of time. This subordination may ultimately lead to a rise in the expense level and, therefore, to a rise in the RER itself ; (*iv*) It is more difficult for insurers transacting quality business to achieve the same or lower RER than for other insurers ; consequently the RER tends to make the insurer lukewarm towards the growth of renewal premium ; (*v*) Under certain circumstances, the RER gives values that can only be described as fantastic. It may even be negative, implying that the management of renewal business not merely does not require any expenditure but produces an income ; (*vi*) The RER does not give a correct standard for the provision for future expenses to be made in the valuation.
2	1.11.3.	The BER may be divested of the statutory status that it enjoys today. The present rule 25 (*b*) of the Insurance Rules, 1939, which gives this status to the RER, may be amended, and instead of the RER, the following particulars may be required to be given by the valuing actuary : "25 (*b*) (*i*) A statement giving a measure of the strain, if any, arising out of the new business as a percentage of the corresponding first year premium, explaining in detail how this is calculated, and showing what provision, if necessary is made in the valuation in respect of the similar strain arising in future in respect of the future new business.

(1)	(2)	(3)
		(*ii*) A statement comparing the mortality experience of the last inter-valuation period with that expected on the basis of the mortality table used in the valuation. (The method used in compiling the statement should be explained).
		(*iii*) An analysis of the consolidated expenses for the whole of the last inter-valuation period giving the new business and the renewal cost ratios calculated in accordance with the method recommended in Chapter IV".
	2·8	(*a*) Though the renewal expense ratio is a defective index of the level of expenses, the present high level of expenses as indicated by it is confirmed by a more reliable index, viz., the cost ratios. Further, whatever method of analysis is used, the budget method or the actuaries' method, the present high level of expenses is confirmed by both.
		(*b*) It is not possible to explain fully the variations in the overall expense ratios or the renewal expense ratios for the various periods except with reference to the basic cost ratios and the new business expense allowance (NBER). Further, neither the Overall Expense Ratio (OER) nor the RER by itself gives us any reliable indication of the expenses of the Corporation.
		(*c*) Variations in the cost ratios can be explained completely with reference to item-wise cost ratios. This enables the causes of the variations to be studied fully. Cost ratios are particularly useful from this point of view, besides furnishing a more reliable measure of expenses.
		(*d*) Apart from self-regulatory expenses (like commission, policy stamps etc.), staff emoluments account for the major portion of expenses, and the variations in the cost ratios are to be large extent due to variations in staff emoluments.
		(*e*) The increases in procuration staff emoluments and administrative staff emoluments contribute to an increase in the basic cost ratios, unless they are contained by increasing during the corresponding period in the first year and total premiums respectively.
		(*f*) The period 1959 to 1961 is one of favourable experience while that of 1964 to 1968 is one of adverse experience with regard to expenses for the L.I.C. The favourable experience of 1959 to 61 is largely due to the introduction and extension of non-medical schemes, and to the comparatively large increase in new business in those days. From 1-4-1964 to 31-8-1967 the cost ratios continuously increased, largely because the staff emoluments increased substantially, and there was no adequate growth in the premium income. The year 1967-68 showed no further increase in the cost ratios, but the payments to staff for this year have been or *may have* to be made subsequent to the closure of the accounts for this year.
4	3·6·2	The management of L. I. C. should be constantly guided by the need to work at a low level of expenditure as possible, as well as the need to work within the prescribed limits of expenses.

(1)	(2)	(3)
5	3·6·5	A more or less permanent machinery should be set up to examine the various aspects of Modern Management Techniques such as Work Measurement, Functional Cost Analysis, etc., with a view to applying them, with due caution and safeguards to the Corporation's activities.
	3·6·7	The Corporation should take all possible steps to create and maintain a climate that is conducive to the success of modern management techniques by introducing these techniques while concurrently carrying on an effort to educate the workers and all echelons of management of the effectiveness, inescapability and progressive nature of modern techniques of business management.
7	4·4·12	The Proviso to Section 40 (B) (2) of the Insurance Act, 1938 should cease to be applicable to the L.I.C.
8	4·5·8	It should be the duty of the Controller of Insurance to function as an evaluating officer who continuously studies the working of the L.I.C. in all its aspects and assesses the economic efficiency of the undertaking and its achievements and failings in terms of the objectives of nationalisation. As the officer responsible for the vigilance and evaluation, he should be charged with the duty to draw the Government's attention to the kind of directives that the Corporation may need from time to time.
9	4·7·23	The present rule 17D of the Insurance Rules should cease to be applicable to the L.I.C., and instead, the following procedure should be prescribed :—
	(5·16 and 14·5·1	(*a*) The revenue expenses of the Investment Department (including the Mortgage Department) and Building Department should not be included in the Expenses of Management, but should be debited to income from interest and rents. The figures of the interest earned, dividend collected and rent realised, and the respective deductions made from each of these should be shown separately in the annual revenue account.
		(*b*) The Corporation should appoint a Committee of experts to make a detailed investigation into its expenses of management once in every five years. The first Committee of this kind should be appointed as soon as possible.
		(*i*) This investigation should mention the different types of policies in respect of which there is reason to believe that expenses are incurred at a rate materially different from that broadly applicable to the major group of policies.
		(*ii*) The investigation should evolve a set of working rules to allocate different items of expenditure, as accurately as practicable, between first year and renewal expenses.
		(*iii*) The investigation should give formulae expressing, as closely as possible, first year expenses in a year as an aggregate of percentages of the first year premium received in that year under the major

(1)	(2)	(3)
		group and under the different types of policies referred to in (i) above; a similar formulae should be given for renewal expenses. NOTE :—(1) The percentages in the formulae for the first year and the renewal expenses applicable to the major group are the New Business Cost Ratio (NBCR) and Renewal Cost Ratio (RCR) respectively. All other percentages applicable to the different types are referred to as special percentages. (2) In the case of policies where no further premiums are payable, the corresponding (special) percentages may be of sum assured, number of policies or amount of annuities paid (instead of premiums). (*iv*) The Corporation should forward the report of this Committee of Experts, along with its own Comments on the report to the Government. Government may, if necessary, direct such modifications as it deems fit to be made in the set of working rules, special percentages, and, as a consequence, in the NBCR and RCR. Government should prescribe appropriate limits separately for special percentages and NBCR and RCR on the basis of the report of the Committee, revised in accordance with the modifications, if necessary. These limits should be in force for a period of five years. They should be revised every five years on the basis of the five yearly investigations. (*v*) The actual expenses of every year should be analysed into first year and renewal expenses, and the actual NBCR and RCR for the year should be claculated according to the approved set of working rules and the prescribed special percentages in respect of the different types of policies. The prescribed limits of the NBCR and RCR should apply to these actual NBCR and RCR. (*vi*) Every year, the Corporation should publish an analysis of its expenses during the year in accordance with what we have suggested in the preceding paragraph, and explain the variations in the cost ratios from year to year with reference to the item-wise cost ratios, giving reasons for the increases or decreases in the latter. The approved set of working rules should be published along with the analysis for the year in which they are first adopted. Whenever the appoved set of working rules is changed, in the first year in which a new set of rules is introduced, the analysis should be made both in accordance to the old rules and the new rules.

(1)	(2)	(3)
		(*vii*) For the interim period, until decisions are taken by the Government on the first of the five-yearly investigations the Committee recommends the following limits for the NBCR and RCR calculated according to the budget form of analysis for 1967-68.
		N.B.C.R. R.C.R.
		Limits 75% 20%
		These limits may be revised by the Government even during the interim period, in the light of any changes that may occur either as a result of the other recommendations of the Committee or otherwise.
		(*viii*) Though separate limits for the NBCR and the RCR are prescribed in (iv) and (vii) above, the Corporation should not be deemed to have transgressed the limits, if its NBCR is within the prescribed limit and the *total* expenses are within the total permissible expenses on the basis of the prescribed NBCR and RCR, even though the limit on the RCR might have been exceeded. Sec. 40(B) of the Insurance Act 1938 may be suitably modified.
10	4·9·7	A Committee of Actuaries appointed by the Corporation should decide the basis of valuation to be adopted for each statutory valuation under Section 26 of the L.I.C. Act.
11	4·9·10	With a view to providing an adequate procedure, suitable to the altered circumstances, for the purposes served by Section 64K of the Insurance Act 1938 and Rule 17G of the Insurance Rules 1939 which formerly applied to private insurers.
		(*a*) Provision should be made for the following investigation to be made and reports on them to be separately filed with the Controller :
		(*i*) analysis of surplus disclosed by the valuation ;
		(*ii*) estimate of the rate or rates of bonus that can be maintained in future in respect of the existing policies, on the basis of the reserves provided in the Valuation and under existing conditions of mortality, interest and expenses;
		(*iii*) estimate of the rate or rates of bonus that can be earned in respect of the new with-profit endowment assurance and whole life business at current rates of premium under existing conditions mortality, interest, expenses and distribution of new business ;
		(*iv*) estimate of the margin available in the current without-profits rates of premium for endowment assurance and whole life policies under existing conditions of mortality, interest, expenses and distribution of new business.

(1)	(2)	(3)
		(*b*) The Committee of Actuaries referred to in Recommendation No. 10 above should decide the technical procedures to be adopted for investigations provided in (*a*) above and under rules 25(*b*)(*i*) and (*ii*).
12	5·9	The Corporation should define methods for fixing business targets on a scientific basis and, if necessary, formulate these methods with the assistance and co-operation of agencies like institutions of research.
13	5·15·4	The Corporation should take steps to collect the necessary data on the departmentwise estimates and actuals for the expenses on the salaries and other emoluments paid to various categories of staff. The Inspection and Internal Audit Units should ensure that these data are collected and put to appropriate use.
14	5·15·11	The budget of the Building Department should be more carefully scrutinised at the stage of formulation with a view to ensuring that actuals do not vary unreasonably from the estimates included in the sanctioned budget. The Corporation should also take steps to ascertain the extent of surplus staff in the Department and ensure that the staff strength at various levels in the Department does not exceed what the work-load warrants.
15	5·16	The income from investment activities should be shown net of expenses, and not as gross income as is being shown in the income side of the Revenue Account today. In the same way the expenses of this Department should be clearly shown on the expenditure side of the Accounts of the Department. The budget of the Corporation should be prepared in three parts. "Life Insurance, General Insurance and Investment (including Building and Mortgage Departments)".
16	5·17·1	The Corporation may take immediate steps to introduce a system of full-fledged budgeting at the Branch level so that the Branch budgets can provide the basis for integrated higher level budgets and expenditure control and evaluation at all levels.
17	5·17·4	All suggestions made at the Meetings of the Committee and/or the Board should be examined by the Corporation and appropriate notes on the results of the study should be put up to the Concerned Committee or the Board along with any observations that the Management would like to make on the suggestion.
18	5·18	The Corporation should institute a regular system of monthly review of performance with the budget. These reviews, during the currency of the budget as well as after the closing of accounts, should also go into the reasons for variations between Actuals and Estimates and pin-point the measures that can be taken to improve the methods of budgeting.
19	5·20·2	The budget form should be suitably revised, and the Branches required to furnish the additional data that is likely to be useful for other management purposes as Supplementary Statements appended to the Budget Form. We believe that the data thus collected and made available in

(1)	(2)	(3)
		the Budget form and the Supplementary Statements will together provide the Management with the information and tools it requires for the purpose of budgeting, budget-review, cast control and efficiency control.
20	6·2·7	From all points of view, we feel, that the Corporation has done better than what private insurers did during the pre-nationalisation days. If the performance of the (Private) insurers and the conditions prevailing after nationalisation are any index, it appears to us that there is no reason to believe that the private insurers would have done much better than the Corporation.
21	6·8·1	It appears to be a very sound proposition to say that in an economically backward country like India a group approach may spread insurance sooner, to a wider circle, and at a cheaper cost. As we go down the economic ladder, the average sum assured is likely to be lower, the remuneration to the agent, making the individual approach, correspondingly smaller, and the effort required to persuade the prospective policy holder greater. All these characteristics point to the unsuitability of the individual approach for spreading insurance to persons with low incomes. The group approach thus becomes indispensable when our aim is to take deliberate steps to spread insurance far and wide, and not merely to hope that insurance will spread as a by-product of the steps that one takes.
22	6·9·5	Government may take steps to see that Group Term Insurance is given due recognition as one of the means which an employer may use to provide additional monetary benefits to his employees.
23	6·9·6	Experience rating and profit sharing schemes should be continuously reviewed and readjusted to help to maximise the growth of group insurance in our country.
24	6·9·10	The L.I.C. may consider the feasibility of establishing a separate Group Superannuation Fund with distinct assets and assessment of liability, and of distributing the profits accruing from this fund to the persons covered under it. Government may then exempt the distributed profits from income tax and make the investments of the fund subject to the restrictions under the Trust Act.
25	6·9·11	The Corporation should study the feasibility of introducing group insurance schemes that meet the special requirements of all the distinct groups that can be reached, *e.g.* professional bodies, trade unions, depositors of a bank, the debtors of a lending institution, etc.
26	6·9·12	The Government may examine the possibility of linking the newly created General Provident Fund to a decreasing death benefit to be provided by the L.I.C.
27	6·9·13	Group insurance business should, as far as possible, be directly secured.
28	6·10·1	A term insurance group benefit may be provided to industrial labour on a compulsory basis through the agency of the

(1)	(2)	(3)
		Employees' State Insurance Scheme and/or the Employees' Provident Fund Scheme, and a committee be appointed to work out the details of such a scheme.
29	6·10·6	A Compulsory Life Insurance Scheme for the employed population should be formulated expeditiously and implemented.
30	6·10·9	Employees covered by the Compulsory Insurance Scheme may be given the facility to pay the premium for compulsory insurance out of the provident fund contribution. Where this facility is availed of, the premium should be deemed to have been paid by the employer and the employee in the same proportion as that of their contributions to the provident fund. In some of the establishments in which employees do not have the benefit of a contributory provident fund, their wages or salaries may be too low to permit them to pay the premiums for compulsory insurance. The employees of such employees may be required to provide for them a group term insurance, at the cost of the employers themselves.
31	6·10·15 and 9·11·5	After the introduction of the compulsory scheme no renewal commission should be paid for additional salary savings insurance.
32	6·12·7	The Corporation should compile detailed statistics on the rural business in force.
33	6·12·11	The Corporation should take steps to popularise single premium endowment assurances among the agriculturists in the rural areas, the policyholder being approached often enough in a short period, after the issue of the first policy to ensure that the total death cover under all the policies is of an appreciable size.
34	6·12·12	The Corporation may explore the possibility of providing loans to State Governments for projects of rural and agricultural development in areas that provide a specified minimum of life insurance.
35	6·13·4 and 11·2·12	The Corporation should increase the Non-Medical (General) limit to Rs. 5,000/-. The Non-Medical (Special) limit may be increased to Rs. 10,000/-.
36	6·13·5 and 11·2·12	Non-Medical (Special) limit for defence personnel may be raised immediately to Rs. 20,000/-.
37	6·15·5	On the analogy of the Cumulative Time Deposit Scheme, income-tax concessions should be available under Pure Endowment or Deferred Annuity only if the term is not less than 10 years, and in the case of such policies for 10 or more years, the surrender value should be included in the taxable income, if the policy is surrendered within 10 years.
38	6·15·10	The feasibility of permitting the L.I.C. to issue unit-linked policies should be examined before proceeding further with the proposal to issue insurance-linked units.

(1)	(2)	(3)
39	6·15·11	The L.I.C. should immediately examine the feasibility of issuing index-linked policies and investing the entire reserves under such policies in index-linked securities to be issued by Government. The Government may consider the feasibility of issuing index-linked securities that can provide the necessary support to the index-linked policies that the L.I.C. may decide to issue.
40	6·16·2	The appraisal years of agents and Development Officers should be spread evenly throughout the year.
41	7·2·6	Officers of the rank of Divisional Managers and above may be brought under a separate cadre with an appropriate designation, *e.g.*, cadre of Executives, while others continue to be referred to as 'Class I Officers'.
42	7·2·7	The Corporation may examine whether the cadre of Administrative Officers can be abolished without impairing the promotional prospects of subordinate cadres and/or increasing the expenditure on these cadres.
43	7·2·11	The Corporation may examine whether the post of Superintendent can be abolished in due course without impairing the promotional prospects of the employees of subordinate cadres in Class III.
44	7·3·3	No efforts were made to assess the extent of surplus either before or soon after the L.I.C. commenced its work. If such a study had been conducted, the L. I. C. might have been able to identify and utilise the surplus in the new offices that were opened after the establI.shment of the Corporation. Moreover, there might have been obstacles in the way of transferring surplus staff from the places where the erstwhile insurers had offices to the new places where the Corporation was establishing new Branch and Divisional Offices. Due to all these difficulties, the surplus staff existing on the date of the establishment of the Corporation might not have been put to full and effective use, and this might have added to the avoidable expenses of management.
45	7·3·6 to 7·3·10	The extent of surplus in staff is of the order of about 25%. Taking the total salary bill of the Corporation of the administrative staff during 1967-68 of Rs. 23 crores, a surplus staff of even 25% will mean an excess expenditure of about Rs. 6 crores per year.
46	7·4·2	The Corporation should take immediate steps for measuring work and arriving at "norms" for all kinds of work that are amenable to measurement. The Corporation may, if necessary, take the assistance of any expert outside body that may be able to help in this exercise. Till the results of this study are available and the extent of "surplus" has been determined and located, no further recruitment should be made.
47	7·4·5	The Corporation should devise a suitable system of incentives/disincentives for tewarding or punishing work that is above or below the norms that are fixed. The system should give no room for suspicion of partiality or prejudice, and should be capable of easy application.

(1)	(2)	(3)
48	7·4·6 and 12·5·9	Measures should be taken to ensure that all the jobs envisaged for machines in the Machine Manual are put on the machines without any further delay. The Corporation should also examine whether the full utilization of machines cannot be ensured by putting further jobs that can be mechanized on the machines that are already available.
49	7·5·4	The duration, content and techniques of training for the different cadres of Officers sohuld be continually reviewed to improve their efficiency and productivity.
50	7·6·2	Class I Officers who are to be promoted should also be asked to appear at an interview, and the selection should depend not only on their Confidential Reports but also on their performance at the interviews.
51	7·7	Frequent transfers of employees should be avoided; unless there are exceptional circumstances, an employee should be allowed to remain at a place for at least 4 years. Though we cannot accept the contention that the Corporation should not exercise the right to transfer employees to any place in India provided in Staff Regulations (1960) No. 80, we feel that the exercise of this right should be tempered with considerations of the economic hardships that the transfer may occasion and other humanitarian considerations that may arise. These considerations should give due regard to the class of the employee who is being transferred.
52	7·8·6	The Corporation should take the earliest opportunity to revise the criteria for house rent allowance, with a view to ensuring that the amount of allowance paid is in no case higher than actual rent paid.
53	7·8·7	We do not see any reason to recommend that there should be rigid parity among pay scales of corresponding ranks in L.I.C., State Bank of India, and Reserve Bank of India or any other public undertaking, irrespective of considerations of the capacity of the organisation to pay.
54	7·9·4	The Corporation should take immediate steps to evolve a suitable formula to fix the cadre strength for the I.H.O. and I.B.O. Units and reduce the staff of these units in accordance with this formula.
55	7·10·15	Full powers provided in Regulation 39 should be invoked to deal with indiscipline and, if necessary, Regulation 39 should be suitably amended to remove ambiguity in identifying indiscipline and inefficiency and to enable the authorities to take prompt and effective action when the seriousness of the indiscipline or inefficiency warrants or demands it.
56	7.11.6	We understand that the Corporation has set up a machinery for dealing with the grievances of employees. The necessity for a cordial and meaningful dialogue between the employer and employees cannot be over emphasized. The Corporation should, therefore, set up a Joint Consultative Machinery.

(1)	(2)	(3)
57	7.11.8	Joint Consultative Committees should be established at the Divisional level and later at the Branch level.
58	8.8.3	Since the differences between the Blue Order and the Appointment Letter appear to have given rise to misunderstandings the Corporation should take the earliest opportunity to revise the appointment letter and ensure that it conforms to the Blue Order.
59	8.17.1	The schemes of temporary increments and multiple increments should not be revived.
60	8.17.2	The net increase in the total premiums collected under the Development Officer's organisation (adjusted for claims and premiums ceasing under whole life limited payment Policies) should be regarded as one of the factors that should determine the incentive bonus. The actual amount of the incentive bonus (commission) to a Development Officer should be arrived at after taking into consideration all the factors referred to in Para. 7 (2) of the Blue Order, besides the net increase in total premiums.
61	8.19.7	During each year a Development Officer should secure assurances on a minimum number of 180 lives, or twelve times the number of agents working under him, which ever is higher. While this number should be the minimum for the last slab of the salary scale, the minimum number should be correspondingly increased for the higher slabs in the salary scale.
62	8.19.13	The Corporation should fix suitable norms for the new sum assured that should be procured through Devlopment Officers, and should strictly enforce the norms that they may decide to prescribe.
63	8.20.1	For calculating the cost ratio of a Develooment Officer all emoluments paid to him should be taken into account.
64	8.20.7	The total emoluments of Development Officers, whose cost ratios, based on the entire cost incurred on them, has been more than 40% in the immediately preceding appraisal year, should be immediately brought down to ensure that the reduced cost incurred on them works out to 40% of the Scheduled Premium Income during that appraisal year. If the Development Officer is not agreeable to this arrangement his services may be terminated, as it would then be obvious that he is not interested in the job.
		There are some Development Officers who are between the two extremes referred to above. Though their performance cannot be considered satisfactory, it is reasonable to give them some time to improve their performance. Accordingly the Development Officers whose cost ratios have been between 15% and 40% during the immediately preceding appraisal year, or Officers whose emoluments have been adjusted as stated above, should be given a maximum period of 4 years to bring down their cost ratios to within 15%. In the case of Development Officers who have thus been given periods exceeding one year, the reduction in the cost ratio to 15% should be effected by suitable stages so that reductions go on diminishing in successive

(1)	(2)	(3)
		years. If at the end of any year during this period, the cost ratio of any Development Officer is above the stage fixed for that year, his total emoluments, inclusive of all costs incurred on him, should be reduced so that the cost ratio based on the reduced emoluments is within the limits fixed for that year.
		When the period of transition ends, the cost ratio of Development Officers including incentive bonuses should not exceed 15%. In case the Scheduled Premium Income of a Development Officer is not up to the standard on the basis of the 15% cost ratio, it would be necessary that the excess amount paid to him (*i.e.*, in excess of what is justified by the Scheduled Premium Income brought by him) should be recovered from him either in a lump sum or in instalments over the following year. This would only mean that in the following year too, the Development Officer's gross emoluments remain at the same level as in the previous year. Hence in order to be within the cost ratio of 15% in the succeeding year as well he would have to produce a Scheduled Premium Income that justifies his emoluments. As an alternative, he may be given the option to have his gross emoluments in the following year reduced suitably to keep him within the cost ratio of 15%.
65	8.21.2	A Development Officer may have a maximum of 15 agents under him. It may, sometimes, happen that a Development Officer already has more than 15 Agents in his organisation. In that case,it is not our intention to put him at a disadvantage by suggesting any reduction. If any Development Officer has more than 15 agents, he may be allowed to maintain the same strength of Agents.
66	8.22	Credit should be given to the new Development Officer only to the extent of the excess of the business done by the allotted agent over the previous 3 years' average.
67	8.23.2	When an Agent completes five years of work, the Corporation should examine whether he continues to require the help and guidance of a Development Officer and if it is found that the agent can work efficiently on his own, he should immediately be appointed a 'Direct Agent', keeping in view the number of Agents in the demarcated areas and its effect on the concerned Development Officers.
68	8.24	Development Officers too should render such services to policyholders as may be decided upon by the Corporation.
69	9.3.14 & 9.3.15	The Corporation,with its monopoly to transact life insurance business in India, has *prima facie*, a very large agency force. The present Agency force of the Corporation needs a thorough review and scrutiny with a view to building up a stable cadre of real agents and weeding out the transient and the inefficient.
70	9.4.2.	To avoid a large and disproportionate turnover in the agency force and to avoid consequent wastage, the Corporation should fix a limit to the total number of agents it wants to have at any one branch at any one time, and regulate its recruitment of agents on the basis of this number.

(1)	(2)	(3)
71	9.5.3	The practice of visiting agents, i.e., agents attached to one Branch doing business at places that they are temporarily visiting may be discontinued. The following alternative arrangements may be made : Where a Branch has an exclusive territorial jurisdiction, its total areas may be divided into a certain number of districts or countries. The area of each demarcated district or county should be so determined that the estimate of its insurance potential assures enough work for three agents, and only 3 agents should be appointed within such a demarcated area. The agents residing within such a demarcated area should work only within that area. Other agents attached to the Branch will work within the remaining undemarcated area of the Branch. No agent attached to any one Branch with an exclusive territorial jurisdiction may work outside this jurisdiction. Agents attached to Branches having a common area with other Branches should not work outside the total common area which forms the territorial jurisdiction of these Branches.
72	9.6.1	The minimum new business guarantee should be exclusively for life business and it should not be relaxed on the ground of good performance in general insurance business. If an agent is appointed for both types of business, life and general, his contract for life insurance business should stand terminated if the minimum new business requirement for life business is not fulfilled, irrespective of the magnitude of his general insurance business.
73	9.6.2	Agents should be classified as 'rural' or 'urban' according to their usual places of residence. For deciding the rural and urban character of a place, the definition used in the latest Census should be adopted. Further, data relating to agents should be collected separately for rural and urban agents.
74	9.6.5	The minimum business of an agent should be fixed at policies on 12 different lives in any agency year, assuring a sum of Rs. 60,000 for urban business and Rs. 30,000 for rural business. During the course of the next 4 years, the minimum limit may be stepped up to Rs. 1 lakh for urban business and Rs. 50,000 for rural business by stages. Where the agent's business is partly rural and partly urban, the total sum assured under the urban business together with twice that under rural business should be at least equal to Rs. 60,000.
75	9.6.6	The minimum business guarantee for Sum Assured should be insisted upon in every agency year. The minimum for the number of lives should be insisted upon, on an average every two years. If the agent fails to satisfy the above new business criteria in any year, his appointment should be terminated, and terminated agents should not be re-appointed.
76	9.6.7	During the first agency year of an agent, the criterion for minimum new business procuration need not be enforced.

(1)	(2)	(3)
77	9.7.1	Agents should be required to pass on examination within 5 years of their appintment. If any agent does not pass the examination within this time, his appointment should be terminated, and such terminated agents should not be re-appointed.
78	9.7.2	Every agent should have an opportunity to pass the examination in the language of his choice, and consequently efforts should be made to conduct the examination in English, Hindi or any of the regional languages.
79	9.8	(*i*) The appointment of existing agents who have not secured even one policy during their latest full agency year should be terminated forthwith, and such agents should not be reappointed except under exceptional circumstances. (*ii*) Existing agents who have secured during the last 3 agency years, on an average, a yearly new business of Rs. 75,000 (Rs. 40,000 in the case of agents working in areas with population of less than 1 lakh) may be exempted from passing the examination. (*iii*) The remaining agents, who according to the present classification of the Corporation are active, and those who have been appointed prior to 31-3-1966, may be given a period of 3 agency years from now to satisfy the minimum new business requirement prescribed for the new agents. If during these 3 agency years they satisfy the requirement on an average they may be exempted from passing the examination. (*iv*) All other agents should be treated as new recruits.
80	9.10.22	With a view to combating rebating, reducing lapses and helping in the creation of a stable agency force, the basic rate of first year commission may be reduced from the present 25% to 20%. This percentage may apply to policies of standard plans and standard terms. The standard premium paying period may be fixed at 20 years instead of the present 15 years. Suitable percentages for non-standard plans and terms may be fixed by the Corporation.
81	9.10.23	The rates of new life bonus may be fixed as follows: If there is a net increase less than Rs. 6,000 but more than Rs. 1,600 in the total premium of the agent during the year (after allowing credit in this computation for premiums ceasing by death, maturity and cessation of premiums under limited payment policies), 25% of the first year commission, excluding that on Single Premium, Deferred Annuity and Pure Endowment Policies, will be paid as a new business bonus. For each excess of Rs. 1,000 above Rs. 5,000 in this net increase, this 25% will be increased by an extra 5% upto a maximum of 75%. This scheme of rates of First Year Commission and New Business Bonus will be applicable to policies issued on or after the new scheme is put into effect.
82	9.11.5	The Corporation may adopt the following commission structure for the renewal commission becoming payable to its agents :

(1)	(2)	(3)
		(1) The renewal commission may be paid at the following rate for standard plans and standard terms :

2nd year	3rd year	4th to 10th year	11th and subsequent year
10%	7½%	5%	3%

(1)	(2)	(3)
		The commission rates for non-standard plans and non-standard terms may be fixed by the Corporation on the basis of the above.
		(2) So far as af.er-sales-service is concerned, the Corporation may entrust the agents with such services as may be considered reasonably necessary and practicable. Some of the Senior Agents, about whose credit-worthiness the Corporation is satisfied, may, after taking adequate safeguards, be empowered to collect premiums from the policyholders, particularly in the rural areas.
	(6.10.15)	(3) There does not appear to be any justification for the payment of renewal commission to agents for policies coming under the Salary Saving Scheme of the Corporation. Under these contracts, premiums are automatically deducted from the employees' salaries by their employers, and the deductions so made are passed on to the Corporation direct. Since no after-sales-services are required to be rendered by the Agents under these policies, the practice of paying them renewal commission may henceforth be discontinued.
		These revised rates of first year and newewal commission should be made effective only in the case of policies issued after the Scheme has been put into effect.
83	9.12.4	The Corporation should devise a gratuity scheme for agents, the amount of gratuity being determined by the total renewal premium receivable under the policies canvassed by him which are in force on the day of his retirement the length of his continuous service and the total renewal commission earned by him during the last year of his service at the final reduced rate. A minimum period of service of 15 years may be stipulated for eligibility for gratuity.
84	9·13	The Corporation may undertake an immediate review of the rates of commission payable under the Fixed Term (Marriage) Endowment Policy and the Educational Annuity Policy.
85	9·14·1	Clause 8 of the Agency Appointment Letter should be suitably modified at the earliest possible opportunity to make the rate of renewal commission mentioned in it conform to the maximum of 4% provided in the Insurance Act.
86	9·14·2	Section 44(1)(*b*) of the Insurance Act may be amended by substituting the words "one lakh fifty thousand rupees" for the words "fifty thousand rupees" appearing in that Section.
87	9·15	The Corporation may take early steps to frame regulations for its agents under Section 49(1)(*b*) of the L.I.C. Act, 1956. While framing these regulations, the Corporation

(1)	(2)	(3)
		may keep our observations in view and see that the Regulations are framed in a manner that is conducive to the stability of their organisation.
88	9·16	Institutional agencies like firms of two or three agents etc. should be encouraged.
89	9·17	In formulating "fringe benefits" for Senior Agents, the Corporation should pay due attention to the expenditure that would be involved.
90	9·18	The Government may examine whether licensing can be dispensed with for procuring life insurance business.
91	10·1·7	Item (11) of the DDD Statement, namely, "By forfeiture or lapse" may be subdivided into (*i*) by forfeiture under policies that have not acquired a paid-up or surrender value and those terminated after being continued for some time under the automatic non-forfeiture clause and (*ii*) by lapse under paid up policies. The prescribed DDDD form may be suitably modified to show these subdivisions. The statement may also give an analysis according to the year of issue of both these types of policies and also of surrenders.
92	10·4·3	The L.I.C. should conduct periodical surveys at divisional levels and in various places, to investigate the incidence of lapses by policy years, type of business—rural, urban, medical, non-medial etc. and to ascertain the specific causes of lapses in a manner that is precise enough to indicate remedial action.
93	10·6·6	The Corporation should maintain lapse figures for each Branch Office and each Development Officer.
94	10·10·7	The Corporation should take steps to tighten the present procedure for verifying and ensuring that the insurance carried by the party (including the proposal that is being considered) is commensurate with his income and status, and that there is reasonable chance of the policy, being continued.
95	10·10·10	(*i*) In considering the promotion of Branch Managers and Assistant Branch Managers (Development) lapses from the business under their organisation should also be taken into account.
		(*ii*) In giving merit (cash) awards to Branch Managers and Assistant Branch Managers (Development) the net increase in the total premium, after the necessary adjustments should be taken into account.
		(*iii*) Wherever new business figures are published for any agent, Development Officer, Branch or Divisional Office, the lapse rate of the concerned individual or office for the latest available year should also be mentioned so that a measure of the quality of the business done will also be available for correlation with the volume of the business done.

(1)	(2)	(3)
		(*iv*) The L.I.C. should authorise all such commercial banks as have branches at places where the Corporation has no offices of its own, to collect life insurance premia.
96	11·1·15	Scheme III (1968) should not be renewed at the expiry of its term of two years, and a more simple and easily workable formula should be evolved for giving conveyance facilities/allowances to Development Officials.
97	11·1·29	An immediate study of the requirement of 'jeeps and staff cars' should be undertaken with a view to reducing the number of vehicles and ensuring their economic maintenance.
98	11·2·7	The present authorised limits for medical examiners may be reviewed and suitably revised with a view to eliminating the necessity for two medical reports except in very exceptional cases.
99	12·1·2	There should be constant vigilance and control at appropriate levels to avoid extravagance and wastage, to remove duplication or multiplication of work and to scrutinise all activities (and services) involving one or more minor heads of expenses, to ensure maximum economy and utility.
100	12·2·8	The practice of sending Bonus Intimation cards may be discontinued.
101	12·2·9	The necessity for the different statements and forms prepared and transmitted from one office of the Corporation to another may be examined by the Organisation and Methods Department, with a view to bringing their number to the minimum, and avoiding multiplicity and redundancy.
102	12·2·10	The Corporation should examine the feasibility of having a printing press of its own with a view to effecting economies in the cost of printing.
103	12·3·6	The Corporation should take administrative measures to ensure co-ordination between the various departments of its offices and to avoid wasteful postage expenditure arising from letters sent by the departments of the same office on the same day to subordinate and controlling offices.
104	12·3·7	The Corporation may discontinue the practice of sending first Default Notices to the policyholders.
105	12·3·8	The premium notices which are now being sent by book-post may be printed on postcards if there are no technical difficulties in printing these notices on cards.
106	22·3·69	The Corporation should encourage the practice of crossing its cheques "Account Payee" wherever possible—particularly to agents and medical examiners—so that the cheques can be despatched by ordinary post. The practice of obtaining certificates of posting in respect of cheques for amounts below Rs. 500/- may be discontinued as it does not appear to serve any useful purpose when viewed against the cost involved.

(1)	(2)	(3)
107	12·3·12	The Government may codsider a suitable amendment to the Indian Stamp Act to grant exemption to the L.I.C. from paying stamp duty on the receipts issued by it.
108	12·4·8	A comprehensive survey should be undertaken by the Corporation to sort out old and unnecessary records and steps should be taken to destroy all unnecessary records that have outlived their utility.
109	12·4·9	The Corporation should examine the present haphazard and unplanned location of Branches in the same locality and take steps to re-locate Branches in a rational manner.
110	12·6·16	Decisions on the utilisation of the E.D.P. system should not be based exclusively on the immediate economy in expenses that may result from computerisation, but on the improvement in the speed and quality of service to policyholders and in the precision, speed and versatility with which the information that management needs to assure administrative efficiency and take vital managerial decisions, is made available by the Computer.
111	12·7·4 (14·5·3)	The manner of allocating the cost of saleable literature and the House Magazines should be revised so that the expenditure shown under the head "Advertisements" in the Revenue Account may disclose a true picture of the publicity expenses. The Accounting Procedure should also make it possible to ascertain the extent of subsidy in the case of each item of saleable literature.
112	12·8·4	The number of free calls that are allowed to administrative officers for the telephones provided at their residences may be reduced.
113	12·9·7	If it is found after an investigation that the cost of the administration of the medical benefit scheme for classes III and IV is disproportionately high in relation to any advantage that may be gained from it, the amount of Rs. 50/- may be paid to the employees as an annual allowance, thus avoiding the present cost of administration of the Scheme.
114	12·9·8	A review of the Medical Benefit Schemes for Class I and Class II Officers which is overdue should be immediately undertaken by the Corporation bearing in mind and disparities in the benefits enjoyed by different classes of employees.
115	13·7·1	(*i*) Though reinsurance may be necessary for an insurer of a small size, or in the early stages of development of a Company, it appears to us that reinsurance is not a compelling necessity for an insurer of the size of the Corporation after it has been in existence for 12 years. We should also point out that reinsurance ceded by the L.I.C. is always accompanied by a drain on foreign exchange since there is no other Company that can accept Reinsurance of Life Insurance Business in India. This is evident from the working of the reinsurance arrangements of the Corporation for the last 12 years. We understand that the Corporation has been reviewing the limits of retention periodically.

(1)	(2)	(3)
		(*ii*) While the L.I.C. continues the present risks that have been covered under the existing reinsurance arrangements, without in any way disturbing or repudiating any of the existing commitments or arrangements, it should discontinue the practice of entering into any further contracts or arrangements for reinsurance with foreign Companies. As we have already pointed out, the size of the business transacted by the L.I.C. today and the experience that it has gained in the course of the last 12 years make it unnecessary for the L.I.C. to reinsure any part of its risks on standard or sub-standard lives, and lose valuable premium and foreign exchange. However, we are fully aware of the special responsibility that has been cast on the L.I.C. as a State Undertaking that enjoys monopoly of life insurance business, to provide insurance cover to the nationals of this country. Discontinuance of the practice of reinsurance should no therefore, become a reason for overcautiousness and unjustifiable hesitancy to take on reasonable risks that reinsurers would have accepted, and decline to provide insurance cover to those who need and deserve it. The Corporation may set up a Reinsurance Fund of its own, by crediting to it amounts that it might have paid as premiums if it had continued to reinsurance with other Companies. The Government may contribute a sum of about Rs. 2 crores, from the share of the surplus that accrues to it under Section 28, to constitute a nucleus of this special reinsurance fund of the Corporation. We also hope that the establishment of this fund will help to reduce the number of lives that the Corporation declines to insure on one ground or other.
116	14·4·2	The system of accounting should be mechanised to the maximum possible extent and in the shortest possible time at all the accounting units of the Corporation. We are aware of the apprehension that mechanisation may create a surplus of personnel. But we believe that in this case the surplus, if any, will only be marginal and it should easily be possible to absorb them. The increase in efficiency that will result from mechanisation will be a definite advantage to the management as well as the personnel.
117	14·4·5	The Corporation should take early steps to simplify and rationalise its accounts procedures to ensure that uniform and effective procedures are followed at all levels including the Branches, so that the accounts of each Branch and each Division may be self-contained and may furnish a true and fair picture of expenses and income of that office, and to ensure that the necessary statistical data are regularly built up, collected and collated on a uniform basis, and put to regular and effective use at all levels.
118	14·5·1 (4·7·23 and 5·16·2)	The Accounts Manual should prescribe and facilitate separate accounting of expenses in relation to the activities of the Investment Department at all levels wherever such activities are undertaken. The administrative expenses of the Investment Department should be set off against the income given by the department so that the net income is disclosed in the Revenue Accounts under the head "Interest, Dividends & Rents."

(1)	(2)	(3)
119	14·5·3	The Corporation should review the present basis for the capitalisation of the administrative expenses of the Building Department in consultation with the Controller of Insurance. The entire expenses of the Building Department may be treated as a charge on the rental income. The Corporation, while rationalising its accounts procedures, should ensure that:
		(*i*) The amount spent on training activities at all levels is fully reflected under the head "Training Centre Expenses".
	(12·7·4)	(*ii*) The manner of allocating the cost of saleable literature including the cost of the Central Office House Magazine is revised so that the expenses shown under the head "Advertisements" in the Revenue Accounts discloses a true picture of the publicity expenses. The Accounting Procedure should also make it possible to ascertain the extent of "subsidy" in the case of each item of saleable literature.
120	15·6	The nature and extent of the Internal Audit and the manner of presentation of reports should be uniform in all the Divisions. This alone can provide a sound basis for comparing the performance, efficiency, etc. of the various offices.
121	15·7·2	Effective use should be made of the statistical data produced by the Audit Reports and the efficiency/economy of the various offices evaluated.
122	15·8	The internal audit should cover all the transactions of the Corporation except in the case of voluminous recurring payments like Agent's commission, where the extent of check may be reduced depending upon the satisfactory experience in the effectiveness of internal control. Even in such cases there should be test-checks on sufficiently broad-based samples.
123	15·9·2	Both on grounds of economy and administrative efficiency, the Internal Audit and Inspection Departments should be merged. If the reports of this Department reveal any shortcomings or defects in the practices and procedures that are being followed, the O & M Department should be asked to suggest the corrective and remedial action that can be undertaken. The Inspection/Audit teams may be stationed at each Divisional headquarter (under the control of the Central Office) and rotated every 3 years. An additional Higher Grade Assistant may be provided to each team in view of the merger of inspection work with audit work. A team may consist of one Administrative Officer and 3 Higher Grade Assistants for a Division or Divisions with 2 lakhs of policies in force and an additional Assistant for every additional lakh of policies in force. One additional team may also be provided at Bombay and Calcutta to look after the work of the I.H.O. Units at these places. One separate team may be charged with the audit of the Central Office. All the teams will be directly controlled by the Central Office.
124	15·13·4	Though inspection of the foreign offices is not mandatory in terms of Regulation 47 of the L.I.C. Regulations 1959,

(1)	(2)	(3)
		we feel that regular inspection of these offices is desirable and should be undertaken once a year if foreign exchange situation permits.
125	15·16·9	About 50% of the forms and statements that are being submitted from the Branch Offices to the Divisional Offices appear to be superfluous and can be eliminated without sacrificing efficiency. Similarly, about 40% of the forms that now go from the Divisional Offices to the Zonal Offices can also be eliminated.
126	15·17·2	The O & M Department should be reorganised and placed under the Executive Director (Personnel). It should work in close collaboration with all the different departments in the Corporation with a view to rationalising and simplifying procedures and assessing the personnel requirements of each Department and office at various levels on the basis of a scientific study of work-norms, cadre-strength, etc.
127	15·18·2	The O & M Department should draw up a programme of studies and assessments, giving priority to work measurement and the determination of work-norms.
128	15·18·3	The O & M Department should develop a scientific system of cost analysis and cost control.
129	16·5·6	On the whole, it seems to us that the L.I.C. (1961-64) Table is suitable as a mortality basis for revising the current rates of premium; though at least for some time to come, there may not be adequate margin for adverse fluctuations from this table.
130	16·5·7	The present practice of having a periodical investigation into the mortality of assured lives by the Actuarial Department of the L.I.C. may be continued, but the principles of investigation and methods of graduation to be adopted may be finalised after these are discussed at a meeting of the Actuarial Society of India.
131	16·6·6	On the whole, it appears that though there has been an improvement in the rate of interest over the years, the full extent of this improvement cannot be assumed in the calculation of the premium because of the recent fall in the rate of interest and uncertainty for the future.
132	16·8·1	If the current mortality and interest experience are to be allowed for in a new scale of premiums, and if at the same time the present rates of bonuses are to be maintained, it is extremely doubtful whether any worthwhile reduction can arise under with-profit policies.
133	16·12·4	On the whole, we do not feel it is advisable to effect any immediate reduction in with-profit premium rates. This question may be taken up as soon as the expenses are stabilised.
134	16·12·6	The Corporation should consider suitable reduction in the premium scales for without-profit policies; and simultaneously consider an increase in the sum assured under existing without-profit policies to the extent actuarial considerations justify.

(1)	(2)	(3)
135	17·3·1	Investments of more than a specified amount (say Rs. 50 lakhs) in a single undertaking or undertakings belonging to a single group, which falls under the category of "unapproved investments" as defined in the Insurance Act, 1938, should be made only with the prior approval of the Central Government. The power to impose this further restriction on the investments of the Corporation might be assumed by the Government through an appropriate directive, or a necessary amendment in Section 27A.
136	17·5	The terms and conditions of service of the personnel of the Corporation may be taken outside the purview of Section 49(2)(b) and (bb). However, if for any reason of Public policy when Government feels that a particular step that the Corporation proposes to take in this behalf is likely to have harmful or undesirable effects, it may exercise its powers under Section 21 of the L.I.C. Act and issue an appropriate directive to the Corporation.
137	17·7	In an undertaking like the Corporation which needs autonomy for efficiency and yet has to function in strategic areas of the economy, within the perimeter of the social objectives that the Government pursues, it is essential to ensure that the responsibility for any decision that the Corporation takes or implements is not blurred in a twilight Zone of informal and unwritten exchange of ideas. Therefore, in all cases where the Corporation wants to claim that it has acted in pursuance of the preferences indicated by the Government, it must be armed with a formal and recorded opinion or sanction of the Government. Also whenevert the Corporation has to depart from a practice or procedure prescribed by the Regulations or make departure in resprec- of matters that are reserved for the prior sanction and appo val of Government, it should secure a formal and written approval from the Government.
138	17·8·3	The Government should appoint, once at least in every five years, a Special Committee to review the technical, managerial and accounting system and the operational efficiency of the Life Insurance Corporation and cause these reports to be made available to Parliament.
139	17·9	The Department that deals with insurance may be placed under an Actuary who will be of the rank of a Joint Secretary.
140	18·9·1	Our study of the pattern of expenditure in the Corporation has not led us to the conclusion that the present level of expenses is the result of the unitary structure of the Corporation. Nor are we in a position to assert, either from the evidence before us, or from our estimate of possible changes in the pattern of expenditure in a different set up, that the division of the Corporation into five or more autonomous or independent Units will necessarily result in a reduction in the level of expenses. On the contrary, we fear that it will increase the expenses, particularly if the split-up Corporations are allowed to operate throughout the country.

(1)	(2)	(3)
141	18·9·2	We find it very difficult to say that considerable economy in the level of expenses cannot be achieved, and administrative efficiency cannot be considerably improved in the present unitary set up of the Corporation. Nor are we convinced that the objective of increase in economy and effieincy can be automatically realised, or even more easily realised, by dividing the Corporation into five or more units. In other words, we believe that the present shortcomings in the working of the Corporation are not inherent in the unitary structure. We believe that these defects can be remedied even while preserving the unitary structure. Our examination of the problems and consequences of dividing the Corporation has convinced us that it would be preferable to maintain the unitaty structure of the Corporation and a simultaneous effort can be made to remove the shortcomings from which the Corporation suffers today. We are not convinced that the only way to remove these defects is to divide the Corporation. In fact we fear that dividing the Corporation into five or more autonomous and parallel bodies may result in increase in expenses and give rise to other serious difficulties that may affect the objective of nationalisation.
142	18.9.8	Abolition of Zonal Offices and redistribution of their responsibilities to the Central Office and the Divisional Offices may give rise to some difficulties that will have to be ironed out. Therefore, some kind of machinery may be set up to supervise the implementation of the proposals and the reorganisation of the Corporation in the areas coming under the present Zonal Offices. This may be a zonal Cell in the Central Office, built around a senior officer, but with the minimum number of staff, and meant only for the supervision and reorganisation that will be necessary during the period of transition. The flonal Office in its present dimension, and as an administrative tier will cease to exist, and this will lead to economy, increased delegation and decentralisation of powers and increased efficiency.
143	18.9.9	All our proposals for effecting economy, spreading insurance, increasing administrative efficiency and reorganisation may be given a fair and full trial before the Government considers other alternatives that might have been put forward for the reorganisation of the structure of the Corporation. If, after a full trial has been given to the proposals that we have made, the Government feels that the results that have flown from the implementation of our proposals have not adequately improved the level of expenses and the administrative efficiency of the Corporation, it will, of course, be open to the Government to examine whether the present difficulties of the Corporation are the inherent consequences of the unitary form of the Corporation, and consequently capable of removal only by altering the unitary structure of the Corporation, and re-fashioning it as a federal apex Corporation with autonomous Corporations or completely independent and competing Corporations in the Public Sector, subject to the general control and supervision of the Government ; or whether, the malady and therefore, the remedy lies outside the nature of the structure.

(1)	(2)	(3)
144	18.10.3	Considering all the material made available to us, we are left with the impression that the Board of the Corporation has not been discharging its functions as effectively as it should have done.
145	18.10.4	While appointing the Members of the Corporation, the Central Government should take care to see that the persons chosen are men of outstanding ability and experience who will be able to devote the time and attention that Membership of the Corporation would entail. They should not only satisfy the qualifications mentioned in Section 4 of the L.I.C. Act, but also be firm believers in the social objectives of the Undertaking. The frequency with which the Corporation meets now is not adequate for the efficient functioning of the Corporation. The Corporation should, in our view, meet more frequently than now, and the time devoted to the meetings should be adequate to allow Members to deal with all maters requiring attention and to participate fully in the evolution and implementation of policy. Steps should also be taken to ensure that the Corporation itself or the Executive Committee dissharges its responsibility for the day-to-day functioning of the Corporation without leaving such important matters on one individual however capable he may be.
146	18.10.5	While appointing a person as the Chairman of the Corporation the Government should satisfy itself that the person would serve as the Chairman of the Corporation for a minimum period of five years. Men with requisite stature, competence and experience from outside the Civil Service should also be considered eligible for the Chairmanship of the Corporation.
147	18.10.7	Out of the 15 Members of the Corporation, six Members, including the Chairman, should constitute the Executive Committee of the Corporation and all the Members of the Executive Committee should be full time Members. Like the Chairman, the other five Members of the Executive Committee, who may be described as Functional Members, may be appointed for a minimum period of five years. While appointing the Functional Members, preference may be given to the seniormost officers of the Corporation who are well acquainted with the various aspects of the Corporation's working and who, in the opinion of the Central Government, are men of outstanding competence and experience fit to occupy such high positions in the Corporation.
148	18.11.15	The following steps should be taken :— (1) Remove the present differentiation between Branch Offices and Sub Offices by suitably reallocating areas and personnel, so that, by the end of a priod of two years there are only Branches that can satisfy the revised new business requirements. (2) Raise the target of production of all the Branch Offices to a minimum new business of Rs.2 crores in the case of offices located in places with a population of less than 5 lakhs (according to the latest census) and Rs. 4 crores in the case of offices located in places with a population of 5 lakhs or more (only completed business is to be counted).

(1)	(2)	(3)
		(3) Allow these units a period of 2 years to satisfy the new criteria laid down for new business. If within this period of two years, the concerned offices do not come up to the expectations, a review should be made and suitable action taken. (4) Within a period of two years, transfer all the P.H.S. functions referred to in the foregoing paragraphs from the Divisional Offices to the Branch Offices. (5) Retain the staff that will become surplus in the Divisional Offices when these P.H.S. functions are transferred to the Branches, and reallocate them to the Branch Offices, thus providing all Branch Offices with adequate staff to discharge the functions entrusted to them including the realisation of the revised new business criteria.
149	18.11.16	An immediate review of the administrative, as distinct from the financial, powers now being exercised by the Central and Zonal Offices should be conducted to determine the administrative powers that should be delegated to the Divisional Offices, in order that the Divisional Offices may function in the same manner and with the same powers as the Head Offices of the erstwhile insurance companies, of course subject to the difference that they are units of the same Corporation. The supervisory and other functions, like recruitment of staff, maintenance of Provident Fund and House Property Accounts, etc. should be transferred to the Divisional Offices. This redistribution and delegation of powers should be completed in the course of the next two years.
150	18.11.19	Duties like the recruitment of staff, enforcement of discipline, maintenance of Provident Fund Accounts, House Property Accounts, etc., that can be appropriately transferred from the Zonal Offices to the Divisional Offices should immediately be transferred to the Divisional ; Offices other duties like Actuarial Valuation, under writing of proposals beyond the limits that may be laid down for the Divisional Offices, and general superintendence and guidance etc. may be transferred to the Central Office, and the Zonal Offices may be abolished, subject to the recommendation, that we have made about the necessity to maintain Zonanl Cells in the Central Office during the period of transition. This process of reorganisation should be completed during the next two years.
151	18.11.20	An immediate review may be made of the charges held by the top officers of the Corporation in order to see how responsibilities can be redistributed and each of the Functional Members entrusted with the charge of one or more departments to ensure well-defined and equal distribution of work. The working of the Central Office may be streamlined to ensure proper co-ordination among the various departments.
152	19.5.6	By and large, it would appear that an unjustifiably large share of expenses has been allocated to the General Department.

(1)	(2)	(3)
153	19.5.6	The Corporation should evolve a scientific system of allocation of common expenses, taking all factors into account, so that only a just and equitable share of the common expenses is charged to the General Insurance Department.
154	19.7.2	The Corporation should direct all its "tied" business (general insurance business) to be placed with its fully owned subsidiary, the Oriental Fire and General Insurance Co., Ltd.

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